FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

No. 30,045 — Tuesday September 30 1986 — D 8523 B

Egyptians climb stairway to Islam, Page 5

World news | Business summary

Healey accuses US of collusion

British "shadow" Foreign Secretary Denis Healey attacked US Defence Secretary Caspar Weinberger for his "blatant intervention" in British domestic politics.

His condemnation followed warnings on Sunday by Mr Weinberger that Labour's non-nuclear defence policy would undermine Nato.

Professing puzzlement at what he described as collusion between the Reagan Administration and the Thatcher Government, Mr Healey said the US bombing of Tripoli and President Reagan's denunciation of the Salt-treaty had undermined European confidence in the Alliance more severely than any act since Suez. Page 15

Chernobyl restarts

The first of four reactors at Chernobyl was brought into partial operation for the first time since the accident at the nuclear plant last April, Izvestia said.

Hindus murdered

Sikh militants with machine guns killed three Hindus in Jullundur, bringing the death toll from extremist violence in Punjab this year to 501.

Beirut kidnapping

Jean-Marc Srouessi, a French television cameraman, was reported kidnapped in west Beirut while searching for his Christian Syrian assistant who was seized last week. In east Beirut, a Lebanese army colonel was murdered. Page 3

Brussels blast

A bomb exploded outside the office of the biggest Freemason lodge in Belgium during the early morning, injuring at least one person and causing extensive damage.

Atom protest fails

British and US warships evaded a flotilla of anti-nuclear protest craft and steamed into Sydney harbour in formation despite the efforts of a surfer who clung for five minutes to the bow of an American destroyer.

Blow to Ozal

Turkish by-election results gave a narrow victory to Prime Minister Turgut Ozal's conservative Motherland Party but denied him the big vote of confidence he had sought. Demirel comeback, Page 2

Hu to visit Poland

Chinese party leader Hu Yaobang has accepted an invitation to visit Poland, the strongest indication yet that active relations between the two communist nations have been restored.

Demjanjuk charged

Deported US car worker John Demjanjuk was charged in Jerusalem with crimes against humanity, alleging he was the notorious Nazi death camp guard known as "Ivan the Terrible". Page 5

Ghana gets blame

Menaced guerrillas accused of attempting to overthrow President Gnassingbe Eyadema of Togo told a press conference in Lomé that they were recruited in Ghana and armed and trained in Burkina Faso. Page 5

Lawyer gives up

Fugitive British lawyer Ian Wood, wanted for questioning about a double murder, climbed on to the roof of Amiens Cathedral and threatened to leap to his death. But after six hours he gave himself up to French police.

Chess game drawn

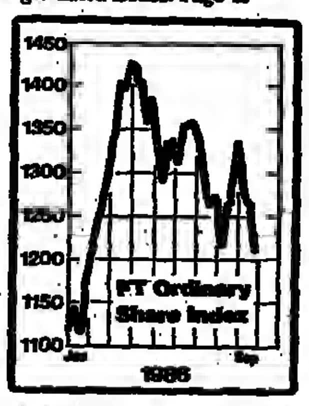
Champion Garry Kasparov and challenger Anatoly Karpov agreed to draw game 20 of their world chess title match in Leningrad, leaving the score at 10 points each. Kasparov aims Page 3

Renault slashes loss in first half

RENAULT, French state-owned motor vehicle group, reduced first-half net loss from FFr 6bn in 1985 to FFr 2.5bn ($372m) this year. Page 20

WALL STREET: The Dow Jones industrial average closed down 14.49 at 1,755.2. Page 40

LONDON: Fears that interest rates will have to rise sharply to protect the sliding pound ran high in financial markets, sending both equities and bonds plummeting. The FT-SE 100 index closed down 29.4 points at 1,539.3, while the FT Ordinary index lost 25.8 to 1,212.8. Government bond losses ranged to ¾ of a point at the short end and to 2¾ points in longer-dated issues. Page 40



TOKYO: Favourite stocks of institutional investors provided some of the few bright moments in an otherwise declining stock market. The Nikkei market average shed 74.90 from last Saturday to 81,106.31. Page 40

DOLLAR closed in New York at DM 2.0190; SFr 1.6375; FFr 6.625 and Y153.55. It closed lower in London at DM 2.0250 (DM 2.0455), SFr 1.6415 (SFr 1.6610), FFr 6.6275 (FFr 6.7025) and Y153.60 (Y154.35). Its index declined 0.6 to 110.1. Page 33

STERLING closed in New York at $1.4370. It fell to record lows on foreign exchanges. In London the sterling index fell to a record low of 68.2 from 68.7. It fell to DM 2.9025 (DM 2.94); FFr 9.5050 (FFr 9.6325); SFr 2.3525 (SFr 2.3875); and Y220.95 (Y221.75). In terms of the dollar sterling lost 35 points to $1.4335. Page 33

GOLD fell $8¾ to $428-$429 on the London bullion market. In New York the Comex December settlement was $423. Page 32

COMSAT, leading US operator of communications satellites, is taking over Contel Corporation, major independent US telephone company based in Atlanta, in a $2.4bn deal which will create a significant new force in the US and international telecommunications industries. Page 21

MENTOR INSURANCE, failed Bermuda-based subsidiary of Ocean Drilling and Exploration of New Orleans, is in worse financial shape than was first thought more than a year ago when the Bermuda Government moved in a compulsory winding up order against it. Page 21

KLÖCKNER and Co, West German steel trading and engineering group, intends to raise DM 250m ($125m) through an issue of profit-sharing certificates and a Swiss franc loan. Page 23

CAR SALES in Western Europe are headed for a 7 per cent rise to 11.2m this year – the biggest annual increase ever recorded, according to General Motors Europe. Page 21

EMS-CHEMIE Holding, Swiss plastics and fibres concern, is to propose an increase in dividend and the raising of "at least SFr 50m ($31m) by a rights issue. Page 23

ELEKTRISK BUREAU, Norwegian electronics and telecommunications group, is to make a private issue of shares restricted to Asea, Swedish electrical engineering group, in a move which represents a capital injection of NKr 371m ($50.4m). Page 21

CHINA is to introduce banking reforms that include permitting citizens to use travellers cheques to conduct business. Page 24

Daniloff flies out after deal clears way for summit

BY PATRICK COCKBURN IN MOSCOW AND STEWART FLEMING IN KANSAS CITY

MR NICHOLAS DANILOFF, the US reporter whose arrest for alleged espionage led to a crisis in US-Soviet relations, was unexpectedly allowed to leave the Soviet Union yesterday, apparently as a result of a swap deal worked out by Mr George Shultz, the US Secretary of State, and Mr Eduard Shevardnadze, the Soviet Foreign Minister.

His release removes the main obstacle in the way of a summit meeting between Mr Mikhail Gorbachev, the Soviet leader, and President Ronald Reagan.

Mr Daniloff, who was arrested on August 30 and charged with spying seven days later, was given his passport and press credentials back yesterday afternoon and told he would be allowed to leave. After being driven to Moscow's Sheremetyevo airport in a US Embassy van, Mr Daniloff and his British-born wife, Ruth, boarded a Lufthansa airlines flight to Frankfurt.

A jubilant President Reagan gave the first official word of Mr Daniloff's release at a Kansas City, Missouri, campaign rally where he was drumming up support for Mr Kit Bond, a Senate Republican candidate.

Mr Reagan, saying he had an announcement to make, told a cheering crowd of Republican supporters that at 12 o'clock US central time a Lufthansa airliner had left Moscow bound for Frankfurt and on board were Mr and Mrs Nicholas Daniloff.

Details of the swap agreement under which Mr Daniloff was released remained shrouded in mystery last night. A United Nations official was quoted as saying that Mr Gennady Zakharov, the Soviet physicist working for the UN, who was arrested on spying charges by the FBI in August, would be freed as part of the deal although the timing of such a move was uncertain.

While the US Justice Department declined to comment on the arrangements yesterday, officials said a trial date for Mr Zakharov would not be set. Later Mr Reagan, responding to reporters' questions, said details of the arrangements that led to Mr Daniloff's release would be announced today.

Mr Daniloff said at Moscow airport before flying to West Germany that he had no details of any deal between Mr Shultz, and Mr Shevardnadze.

It is, nevertheless assumed in Moscow that Mr Zakharov, who was arrested for espionage a week before Mr Daniloff was detained, will be allowed to leave the US for the Soviet Union.

Mr Daniloff left the Soviet Union after telling reporters that he did so more in sorrow than in anger.

A US spokesman in Moscow said he was under strict instructions to say nothing about the circumstances of Mr Daniloff's release. Both Moscow and Washington are clearly anxious to keep the deal which led to his release as secret as possible.

The Soviet authorities, who have shown signs of being surprised at the strength of US reaction to the Daniloff affair, have said in recent weeks that they wanted to see a diplomatic solution to the diplomatic crisis with the US.

In Washington yesterday, Mr David Gergen, editor of US News and World Report magazine, for which Mr Daniloff works, said the incident had reached "an honorable conclusion."

"There is only one man who is moving today ... the mirror image has been shattered," he said. According to Mr Gergen, Mr Daniloff had gained his freedom "with his reputation intact," and the editor thanked the US Government "for turning itself inside out" for the release of one American.

Mr Daniloff looked tired and tense as he stepped off the Lufthansa plane.

Continued on Page 20

How Soviets misjudged US outrage, Page 4

Volcker acts to end Mexican loan impasse

PETER MONTAGNON, EUROMARKETS CORRESPONDENT, IN WASHINGTON

MR PAUL VOLCKER, chairman of the US Federal Reserve Board, summoned representatives of Mexico's creditor banks to a top-level meeting yesterday afternoon in a last-minute attempt to break the deadlock that has developed over Mexico's negotiations for a $6bn loan.

Also due to attend the meeting were Mr Jacques de Larosiere, IMF managing director, and Mr Barber Conable, World Bank President, as well as senior Mexican finance ministry officials.

The meeting followed a warning earlier in the day from Mr de Larosiere that Mexico's SDR 1.6bn IMF loan arrangement would lapse if banks had failed to reach agreement on their $6bn loan by the close of business yesterday.

Mr Volcker is understood to have been instrumental in orchestrating the latest rescue package for Mexico to help it service its $97bn foreign debt. He is known to have been concerned over the reluctance of commercial bank creditors to play their part in the package.

Yesterday's meeting, at which creditor banks were due to be represented at chairman level, was understood to mark a last attempt to bang heads together and produce a result on the stalled loan negotiations.

Earlier, bankers on the advisory committee which has handled Mexican debt negotiations had said they were not hopeful of reaching an agreement in time for today's deadline.

However, pressure on them to come to an arrangement at yesterday's meeting was expected to be intense, even though a large number of technical details related to the Mexican loan request remain to be sorted out.

Samuel Senoren writes from Manila: The Philippines is seeking a new debt rescheduling package of $9.6bn from commercial banks as part of the effort by President Corazon Aquino's Government to reduce the country's $26.4bn foreign debt.

The package, to be formally presented to bankers in New York shortly, will complement a $508m standby credit from the International Monetary Fund due to be approved by the IMF executive board next month.

Under the new debt package, the Philippines wants its more than 400 creditor banks to defer collection on $3.25bn in loans falling due between next year and 1991.

Why Mexican creditors are reluctant, Page 4

Stora plans Papyrus takeover

BY KEVIN DONE, NORDIC CORRESPONDENT, IN STOCKHOLM

STORA of Sweden, Europe's leading forest products group, is negotiating the takeover of Papyrus, a rival domestic pulp and paper concern in the country's biggest ever merger, which could be worth around SKr 4.5bn–SKr 5bn ($650m–$720m).

Trading in the shares of both companies was suspended on the Stockholm stock market yesterday, and Stora said that negotiations had started on a possible merger.

Stora is already the largest pulp and paper producer in Europe following its SKr 3.6bn takeover of Billerud, another Swedish competitor, in 1984. Last year it had a turnover of some SKr 12.92 bn and profits (after financial items) of SKr 1.14bn.

Papyrus, the fifth-largest Swedish forest products group specialising in fine paper, newsprint, board and pulp, had sales last year of SKr 4.9 bn and profits (after financial items) of SKr 700.8m.

Both Stora and Papyrus are parts of the so-called Wallenberg sphere in which the key Wallenberg investment companies Investor and Providentia hold substantial stakes. Mr Peter Wallenberg, head of one of Sweden's most influential industrial and financial families, is chairman of the boards of both Stora and Papyrus.

Wallenberg interests hold some 50 per cent of the votes and equity of Stora and some 25 per cent of the votes and equity in Papyrus. An additional 9.4 per cent of the Papyrus equity is controlled by the investment company Ratos, which is considered to be a close ally of the Wallenberg interests.

If the merger goes through, it will create one of the leading European producers of newsprint, fine paper and packaging board.

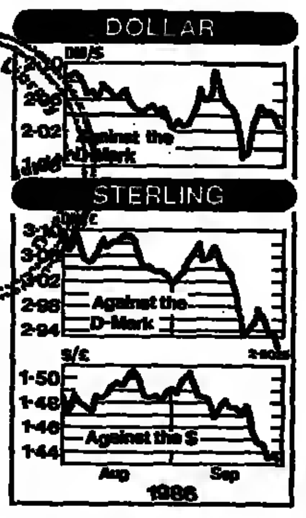
The two companies already have considerable links in Sweden. They are partners in Pappersgruppen, one of the country's leading fine paper wholesalers, and are both shareholders in Hylte Bruk, a 500,000 tonnes-a-year newsprint producer based in south-west Sweden.

Papyrus holds a 55 per cent stake in Hylte Bruk. Stora 20 per cent and Feldmühle of West Germany 25 per cent. Feldmühle and Papyrus are also joint-venture partners in Norrsundet Bruk, the 250,000 tonnes-a-year pulp mill.

Stora opened the way for a major new acquisition earlier this year when it boosted its liquidity significantly through the SKr 6bn sale and leaseback of its hydroelectric power assets.

It is already engaged in an ambitious investment programme and earlier this year announced plans to build a new 215,000 tonnes-a-year newsprint mill at the cost of around SKr 1.3bn. The mill, which should be completed by 1988, will increase Stora's newsprint and magazine paper capacity to some 615,000 tonnes a year, before the papyrus acquisition.

Papyrus shares were trading at some SKr 460 a share last Friday, before yesterday's suspension, but they gained SKr 20 during Friday's trading, a rise that could have triggered yesterday's call for suspension and the confirmation that merger-talks are in progress.



Markets test UK resolve

By George Graham in London

LONDON financial markets yesterday tested the Bank of England's resolve not to raise interest rates. Official intervention headed off pressure in both the foreign exchanges and sterling money markets, but dealers remained sceptical over whether the Bank would be able to continue to resist a rise in base rates.

Although the Bank supplied cash to the money markets at lower rates, interbank interest rates climbed to 11¼ per cent for three month money, 1¼ percentage points above the current bank base rate. One month money rose to 10$\frac{13}{16}$ per cent, but very short-term deposits were cheap because of the liquidity supplied by the Bank.

"The markets have got their heads down and their tin hats on. They are far from convinced that the Bank of England can successfully bring off a holding operation," said a Treasury dealer at one London clearing bank.

Another senior money market operator was more cautious, while noting that the market was pushing hard for higher rates.

"It does look like a King Canute action, but they have won before," he said, recalling the Bank's success in limiting the market to a single, 1 percentage point rise in base rates in January when sterling came under pressure.

Pressure on money market rates has been increased by official intervention to support sterling in the foreign exchange markets.

Further currency market intervention yesterday, however, failed to prevent the pound from sliding to a new record low on the Bank of England's trade-weighted exchange rate index. It slipped by 0.5 to finish in London at 68.2, as the pound lost 3¾ pfg against the D-Mark to DM 2.9025 and 0.35 cents against the dollar to $1.4335.

Continued on Page 20

Lex, Page 20; Money markets, Page 33

British bid to resist higher rates

BY PHILIP STEPHENS IN WASHINGTON

MR ROBIN LEIGH-PEMBERTON, Governor of the Bank of England, said yesterday that the British authorities were seeking to weather speculation against sterling without a rise in interest rates.

His remarks, at the annual meeting of the International Monetary Fund in Washington, came as West Germany reaffirmed its determination to resist US pressure for an early cut in its interest rates. West German officials here indicated satisfaction with the limited success of Bundesbank intervention in braking a fall in the dollar's value yesterday.

Mr Leigh-Pemberton, who acknowledged that the Bank had intervened to defend the pound, suggested that the markets had overreacted to the weekend failure of major industrial countries to agree to stabilise exchange rates.

"I think the reaction in the London interbank market has been rather hasty," he said, in a reference to the sharp rise in British money market interest rates yesterday. The governor added: "I think we will want to let it settle down before we react, if we react at all."

Mr Leigh-Pemberton also pointed out that the authorities had successfully resisted similar pressure for a base rate rise last January. "I hope we might get through this as we did in January," he said.

Mr Nigel Lawson, the British chancellor of the Exchequer, who has kept a low profile throughout the series of meetings of finance ministers here refused all comment on developments in the markets.

The Bank governor, however, suggested that the current pressure on sterling was a spillover from uncertainties in the markets over the dollar, rather than any reflection of fundamental economic developments in the UK.

While the authorities are clearly anxious to avoid any rise in bank base rates ahead of the Conservative Party conference next week, they are not suggesting that sterling will be allowed to fall to any level the markets might push.

The official position appears to be that although there is no specific rate they will defend, too sharp a drop would raise inflationary expectations and could become self-generating.

The West German authorities, meanwhile, indicated that although the weekend meetings had resulted in an improved consensus on a medium-term strategy for tackling imbalances in the world economy, there had been no shift in its opposition to interest rate cuts.

Mr Karl Otto Pöhl, the Bundesbank president, said that it would be completely wrong of West Germany to "approve of higher inflation as part of a strategy for

Continued on Page 20

IMF meeting background, Page 4

Botha will not hold election this year

BY ANTHONY ROBINSON IN EAST LONDON

SOUTH AFRICAN President P. W. Botha last night announced a general election would not take place this year. He coupled his statement with instructions to update voters roles in what appeared to be a move to prepare for elections sometime next year.

The President also told the Cape Provincial Congress of the ruling National Party in this Indian Ocean port city that South Africa and neighbouring Lesotho had decided to go ahead with a R4bn ($975m) irrigation and hydropower project in the Lesotho highlands.

President Botha set off a wave of speculation about early elections during the extraordinary National Party federal congress in Durban on August 15 when he said elections could take place sooner than people think."

The earliest expected date was November 26, which would have meant fighting elections on outdated electoral rolls and on existing allocations of electoral seats. Given the population shifts from rural areas to the cities and from other provinces to the industrial heartland of the Transvaal, elections would have favoured conservative rural areas and weakened the National Party in the key Transvaal province.

Several Cabinet Ministers' seats would have been at risk. Updating the electoral roll and expected changes to constituency boundaries would strengthen the National Party and weaken its conservative opponents.

Congress to override sanctions veto, Page 4

CONTENTS

Europe 2, 3, 10
Companies 21, 23, 25
America 4
Companies 21
Overseas 4, 5
Companies 22, 23
World Trade 6
Britain 13–16
Companies 26–28

Agriculture 32
Appointments 12
Arts – Reviews 17
– World Guide 17
Commodities 32
Crossword 29

Currencies 33
Editorial comment 18
Eurobonds 24
Euro-options 36
Financial Futures 33
Gold 32
Intern. Capital Markets 24
Letters 19
Lex 20
Management 7
Market Monitors 49
Men and Matters 18
Money Markets 33
Raw Materials 32
Stock markets – Bourses 37, 49
– Wall Street . 37–40
– London .. 34–37, 49
Technology 9
Unit Trusts 29-31
Weather 29

Angola: a war with few signs of solution 4
Egypt: building a stairway to Islam 5
Management: why Melville became a 'buy-in' 7
Technology: US patents row over visor 9
Editorial comment: UK Labour Party; tunnel plan .. 18
Defence equipment: battle for AEWS market 18
Strasbourg: relying on West Germany for growth 19
Lex: Fiat; Thames Tunnel; Inchcape; equity 20
Chinese chemical industry: Survey .... Section III
World economy: Survey .... Section IV

By-election wins mark comeback for Demirel

BY DAVID BARCHARD IN ANKARA

THE Prime Minister, whom the military deposed in the 1980 military coup, Mr Süleyman Demirel, appears to have made a political comeback after Sunday's by-elections in which his party picked up a quarter of the votes.

Though the ruling Motherland Party won six of the 11 seats being contested, its share of the vote fell by 10 per cent to 32 per cent, a figure which would not secure it an overall majority at a general election.

The Motherland Party is only three years old and Mr Demirel and its other opponents have claimed that it is an artificial grouping set up as a result of the 1980 military coup and cannot expect to survive a free general election.

Public opinion polls had predicted that the MP would gain more than 35 per cent of the votes. The Government's legitimacy has to some extent been impaired by its failure to reach this level.

The True Path Party, a centre-right grouping formed by supporters of Mr Demirel to carry on in the tradition of the pre-1980 Justice Party, has now established itself as the main opposition party and a strong contender to win an outright majority at the next general elections.

This is a major setback for the Social Democratic opposition who won only one seat in the by-elections.

This was partly because most of the vacancies were in strongly conservative constituencies. However, the Social Democracy Populist Party also suffered from a split vote because another former prime minister Mr Bülent Ecevit, picked picked up 8.2 per cent of the vote for his Democratic Leftist Party.

The Social Democrats will now be relegated to the sidelines.

Mr Demirel yesterday refused to disclose what his next move would be, though he is expected to continue to hold rallies across the country. He ruled out any compromise with Mr Turgut Özal, the Prime Minister, and appears to have set his sights on wiping out the Motherland Party at the next elections.

Mr Demirel: a quarter of the votes

He said that his rise indicated that democratic forces were once more reasserting themselves and consequently that political stability was being restored. However, it is clear that both the political and constitutional system created by the military when they left power in 1983 and the economic stabilisation policies of the past few years now face a question.

Mr Demirel was prime minister when Mr Özal first announced his original austerity package in January 1980, but the economic philosophies of the two men have little in common.

The former prime minister is certain to press for the lifting of the ban which prevents him and other prominent politicians from the pre-1980 period from joining a party or standing for office before 1992.

Both President Kenan Evren and Mr Özal have indicated recently that they are determined that the bans should continue.

Anti-reform minister sacked in Poland

By Christopher Bobinski in Warsaw

POLAND'S parliament yesterday was expected to approve the removal of Gen Czeslaw Piotrowski as Minister of Mining and Energy to the satisfaction of supporters of the country's decentralising economic reforms which so far have been resisted to this sector.

The change also marks a weakening of the powerful heavy industry lobby which has fought hard for investment funds in current debates over spending plans.

The general's refusal to admit that the reforms should be applied to mining came in for oblique criticism from Mr Wladyslaw Szymanski, a member of the collective presidency, in a parliamentary debate yesterday on the fate of the changes which aim at establishing a more market-oriented economy.

Mr Szymanski's outspoken keynote speech also warned that the reforms would lead to clashes between vested interests and that political changes were necessary if such tensions were not to threaten the stability of the state.

Subsidies to loss-making industries must be cut, rationing of resources limited and supply and demand balanced, Mr Szymanski urged. He also called for a change in the structure of capital spending towards consumer output if inflation was to be controlled.

The present pro-reform mood in parliament, echoed in subsequent speeches, reflects last July's Communist Party Congress which approved more rapid economic reforms and marked the weakening of bureaucratic opposition to the changes.

Plans to cut the powers of workers' co-management councils current during the summer were also finally dropped last week after a Politburo meeting at which Gen Wojciech Jaruzelski came out for the maintenance of the status quo.

Last week, too, a parliamentary sub committee refused to accept a plan of the Engineering Ministry to centralise decision-making in the electronics sector.

David White on attempts to calm nerves in a garrison town on the Moroccan coast

Friction builds up in Spain's African enclave

ON THE MAP of Morocco, the peninsula on which the Spanish town of Melilla is encrusted stands out like —well, after this year's events it would be tempting to say, like a sore thumb. After months of publicity over tension between the enclave's Moslem and non-Moslem community, Spain is anxious to calm nerves on both sides.

Melilla, and Spain's other garrison town of Ceuta 300 miles away ,are the last remnants of Spanish overseas rule and live under the threat of Morocco's territorial claims. Recently, Spanish - Moroccan relations have been smooth, but an inter-communal flare-up could have unpredictable consequences.

Madrid insists that the North African towns are not colonies like Gibraltar but ancient parts of Spain. First conquered in order to fand off Barbary Coast pirates and occupied at the end of Spain's "reconquest" against Moorish rule, Melilla this month celebrated 489 uninterrupted years as a Spanish base.

But if it is not a colony, Melilla definitely feels like one. Its 4.6 square miles, with a civilian population of something over 60,000, is dotted with Foreign Legion and artillery barracks. In a circle around the Plaza de Espana stand the Government delegation, the town hall, the military club, the Bank of Spain and the shipping offices (six boats a week). A monument nearby commemorates tha Spanish civil war.

Tha town, still an outpost of Europe for all its peeling stucco, seedy bars and run-down cinemas, backs onto the Moslem ghettoes of Reina Regente (Queen Regent, also called "the horns"), Cabrerizas (goatsheds) and Canada de la Muerte (death gully).

The first thorough census of Melilla Moslems has only just been completed. Instead of the usual estimate of 27,000, it found only 17,000, but between 5,000 and 10,000 others come in and go out every day.

Spanish - origin Melillenses like to say there is no racial discrimination. But economic discrimination there certainly is. Moslems get the worst jobs: they are not found as civil servants, municipal policemen or taxi drivers. Tha white-washed hovels of Reina Regente have no electricity, running water, garbage collection or sewage. Men and women defecate in tha river. The only sign of public works is the occasional communal tap on the side of an unlit dirt street.

Friction built up last year because of Spain's new aliens law, which would have affected most of the Moslem population. Better organised politically than their counterparts in Ceuta, they quickly became radicalised. Talks between the Madrid Government and Moslem leaders from both enclaves finally resulted in an 18-month integration plan, agreed in June.

Designed to settle the Moslems, it immediately unsettled non-Moslems, right across he political spectrum, and turned the electorate against the Government. The right-wing Opposition stole Melilla's three

Senate and Congress seats from the Socialists in the June general election.

The Government's ingenious response was to remove the two most controversial figures from the scene. Mr Aomar Mohamedi Dudu, a 36-year-old economist and undisputed leader of Melilla's Moslems, was given e government job in Madrid as adviser on Moslem affairs, and the Government delegate, the enclave's chief official, who had been blamed for taking Mr Dudu's side and who had sacked the local police chief, was posted to the farthest corner of the Spanish mainland.

In his place, Prime Minister Felipe Gonzalez sent in a native Melillense, Mr Manuel Cespedes, a former drug squad police officer. Despite a sticky start—Moslem leaders were piqued to find they were not invited to the new delegate's inauguration ceremony — he has so far proved to be a clever choice.

A third character went in more grotesque fashion. The leader of the combative Spanish Nationalist Party of Melilla, Mr Juan Diez de la Cortina, a well-known shopkeeper, was rather preposterously caught up in an alleged terrorist plot. Reflecting the tense prevailing atmosphere, in which there were reports of paramilitary groups being formed on the model of the Franco-Algerian OAS. He was detained, and has since quit politics. His party maintains it was all a Government-devised trap.

The central issue for both sides is that of nationality papers. About 8,000 Moslems are awaiting decisions on their applications. At present only 4,500 are Spanish nationals, 2,400 have residence permits and 4,800 hold special "statistical cards." These documents, identifying the holder but not entitling him, for instance, to travel freely, to draw social security, or even to rent a house, are now being phased out.

Mr Dudu says he accepted the Madrid job because the Socialist Government wanted to "integrate Moslems like any other citizens." Reluctant to see him go, his Melilla Democrats' Party has attached conditions to his move. It is pressing 9,000 nationality claims, and will demand his return if the process is not well under way by Christmas.

It complains of obstruction and difficulties faced by Moslems in proving the 10 years' residence required for naturalisation, even when they have spent their whole lives in Melilla. The other day, a series of key documents sent out to Moslem residents were found torn in half in letter-boxes.

Mr Cespedes has promised to move as fast as possible but is begging for "a minimum amount of time" to show that no rules are being bent. Melilla Christians fear that franchise for thousands of Moslems will give power to Mr Dudu and that this could be the thin end of the wedge for Spanish Melilla.

While most Melilla Moslems, especially the young, show no interest in the town's becoming Moroccan, neither are they anti-Moroccan. Mr Dudu's party denies having members who also belong to Morocco's nationalist Istiqlal Party.

Fear of takeover has been fuelled by population trends since Morocco's independence and the end of the Spanish and French protectorates 30 years ago. Not only has the once small Moslem presence increased, but the "European" population has shrunk from about 85,000 to 45,000.

Like Gibraltar, Melilla rests on the two pillars of business and the military. Tradesmen, who include a colony of Indians, say business has been flagging. Travel costs and the availability of imported goods in Spain have hit custom from the mainland. Melilla has to rely overwhelmingly on Moroccan cross-border trade.

Its former tocome from a shipment terminal for iron ore from the Riff mines went when Morocco built its own port next door, and fishing has suffered from over-exploitation.

Madrid has now pledged Pta 8.5bn (£40m) for infrastructure projects. The new delegate says Melilla has not had investment on this scale for more than 50 years,

Basque election campaigning raises worries for Madrid

THE MODERATE tone which for a year and e half characterised the Basque regional government and its relations with the Socialist administration to Madrid has been thrown to the winds in the first stages of campaigning for elections in the region on November 30, David White reports from Madrid.

Faced with the end of its political hegemony in the Spanish Basque country, the Basque Nationalist Party (PNV) has predictably fallen back on the nebulously radical language to which it resorts in times of trouble.

In its bid to rally Basque sentiment behind it, it is competing for the first time not only with Basque leftists and apologists of violence but with a party created like Eve from its own ribs—the new formation known confusingly as Basque Nationalists (or, by its initials in the Basque language, EA).

Mr Jose Antonio Ardanza, the Basque president, whose government enjoyed support in the regional parliament from Spain's ruling Socialist Party, already set the tone in his election announcement on Friday, when he blamed not only the defectors who had set up the new party but also Madrid, for being unco-operative.

At annual PNV celebrations at the weekend, the party leader Mr Xabier ArZallaz (one of the PNV's idiosyncrasies is a rigid separation between party posts and public offices) brought out the banner of Basque nationhood, rejecting "any constitution" that failed to recognise the "sovereignty of this people." The statement was designed to match the combative stance taken by Mr Carlos Garaikoetxea, former Basque president and effective leader of the new party.

Against the background of continuing terrorist attacks by Eta, the underground separatist organisation, Madrid's worry has been that elections will create just this kind of "centrifuge" effect, pushing Basque attitudes out to the more radical fringes.

Mr Garaikoetxea, attacking Mr Ardanza for neglecting the aims of Basque nationalism, has revived the theme of "self-determination," implicitly going far beyond tha region's current autonomy statute. Almost two years after his resignation from the presidency over internal party squabbles, the election marks his bid for revenge.

The PNV's all-time high was with Mr Garaikoetxea in power in 1984, when it won 450,000 votes — 42 per cent of the total — in the last regional election. The main question now is how many of those votes the charismatic former Basque president can take with him.

For the Socialists, the snap election presents both an unexpected opportunity and a headache. In the last Basque parliament they were the second party with 19 seats, behind the PNV's 32. The defection last month of 11 PNV members created a much more even balance. Together, Basque regional parties, including the pro-Eta party Herri Batasuna, which rejects the constitution and refuses to take its seats either in Vitoria or Madrid, still command a solid majority. But the three main Basque parties have now become four. Profiting from the division, the Socialists could feasibly succeed in placing their regional leader, Mr Jose Maria ("Txiki") Benegas, as the next Basque president.

But, whoever gains the presidency, the election threatens to pitch the Basque country into a system of unstable coalitions.

Hopes of averting Swedish public sector strike fade

BY SARA WEBB IN STOCKHOLM

SWEDEN'S MEDIATING commission and public sector unions were locked in talks last night in a last-minute attempt to fend off strikes planned from noon today.

Mr Sven-Hugo Ryman, the chairman of the mediating commission, last night said that discussions were taking place with the unions—which represent 1.5m public sector workers—and the Government, municipalities, and county council employers in a last-minute attempt to postpone the strike.

"We had contact over the weekend but we don't think anything will come of it—the strike will go ahead," said Ms Marianne Swohn, speaking for the TCO-S confederation which represents about 270,000 white-collar civil servants and state employees. The other public sector unions were also pessimistic.

In the meantime, Saco/SR-S, another union confederation which represents professionally-qualified staff, has said it will consider calling 3,000 to 4,000 of its members out on strike if the "final offer" put forward 10 days ago is changed. Saco/SR was the only public sector union confederation to approve of the final offer.

About 17,000 public sector workers, mostly in key administrative positions, were set to stop work from noon today, in an attempt to cause inconvenience and financial losses for the Government, without hitting the public.

That claim rings rather false, however, as the planned strike would take about 2,500 nurses out of work, and already some patients have been told that their operations would be delayed.

Public transport supervisors also plan to go on strike, which could mean that buses and underground trains will eventually stop running if the strike lasts more than a few days.

Other public sector workers due to stop work if the strike goes ahead include post office administrators, local authority financial planners, state railway ticket sellers, customs declaration officers (whose action is calculated to cost the government SKr 1bn (£100m) a week), traffic workers, and technicians responsible for the overhaul of civil aircraft.

The final offer, tabled 10 days ago, was for a 10.5 per cent increase over 1986-87. The employers and almost all the unions rejected this.

Stable currency rates desirable, says Pöhl

WEST GERMANY and most other major industrialised countries believed it would be desirable to stabilise the current structure of foreign exchange rates, Mr Karl-Otto Pöhl, president of the Bundesbank, was quoted as saying, Reuter reports from Bonn.

Mr Pöhl, in an interview from Washington with a newsletter published by the German Christian Democratic Union (CDU) party, was asked whether Europe and Japan could prop up the dollar on their own or whether the US might also be willing to help.

"In our view and in the view of most other countries, it would at least be desirable if the currency foreign exchange structure could be more or less stabilised," he said.

"But whether and how this would be possible is another question," Mr Pöhl said in the interview, conducted yesterday.

"It is my impression that the belief has widely spread on foreign currency markets that the devaluation of the dollar has gone very far up to now and that this is a significant contribution to better adjustment and to an elimination of imbalances (in trade and current account balances)."

Mr Pöhl said a high degree of consensus had emerged in talks among industrialised countries in Washington on the need to eliminate the trade and current account imbalances.

Reducing US trade and current account deficits was particularly important, and a first step in this direction had already been accomplished through the sharp fall in the dollar's value, Mr Pöhl said.

"Further steps from the US must and hopefully will follow, especially in the area of reducing the budget deficit," he said.

"But naturally those countries with surpluses also have obligations. They must try to reach as high a growth as possible and as is compatible with maintaining price stability," he added.

French TV cameraman kidnapped in Beirut

A French television cameraman was reported kidnapped in West Beirut and an army colonel was murdered in the Christian East today as tension mounted between soldiers and militiamen, Reuter reports from Beirut.

A French embassy spokesman said Mr Jean-Marc Srousel, aged about 40, was snatched yesterday as he entered the mainly-Moslem western sector by car from the east.

Local reports said Mr Srousel's Christian Syrian assistant, Mr Fuad Suleiman, was abducted last week and Mr Srousel was crossing the Green Line divide to try to learn his whereabouts.

Mr Srousel is a freelance cameraman, believed to have worked in Beirut for several television networks including the French channel Antenne-2.

The Shia Amal militia launched a massive hunt for Mr Srousel, whose abduction took place in an area largely controlled by Amal.

Pravda predicts power shortage

The accident at the Chernobyl nuclear plant coupled with construction delays at other power stations and a shortage of water has caused an energy shortfall in the Soviet Union with winter coming on, Pravda said yesterday, Reuter writes from Moscow.

The Communist Party daily said atomic and hydro-electric power stations in several regions had failed to meet their targets this year. It called for domestic and industrial energy savings to ensure a stable supply of electricity.

Pravda did not spell out the extent of the shortfall. According to official figures, the country produced 1,045bn KWh of electricity from January to August this year.

Tax aid boosts Madrid bourse

A government programme to encourage investment in securities caused a sharp rise in Madrid bourse shares yesterday, prices jumping 7.32 points, an all time one-day record, said Mr Jaime Sanz, the bourse spokesman, Reuter writes from Madrid.

"The Government's move to shift support to risk capital from fixed income investment was a key factor in today's euphoria on the floor, he said.

Mr Sanz was referring to an announcement by Mr Carlos Solchaga, the Finance Minister, last Friday that the Government would eliminate tax rebates on fixed income issues such as bonds and debentures, leaving the stock market as the sole tax haven with a 10 per cent rebate on money invested there.

Italian health fraud claimed

Mr Carlo Donat Cattin, the Italian Health Minister, has called in magistrates to investigate a massive medicine fraud which he says cost medical authorities L350bn (£172m), Reuter reports from Rome.

Mr Donat Cattin said over the weekend that Mafia groups in Sicily and southern Italy were probably behind the three-year fraud. Health Ministry officials said magistrates began investigations yesterday.

The minister said false prescription forms were used to claim back from the local health authorities the cost of medicines provided almost free to certain classes of patients. The medicines were never dispensed.

The officials said there must have been large-scale complicity by doctors, chemists and health authority officials.

Greek diplomats go on strike

Greek diplomats abroad and administrative staff at the Foreign Ministry in Athens began a 48-hour strike today to press demands for more pay and improved benefits, Ministry officials said, Reuter reports from Athens. They said about 415 overseas diplomats and 1,400 domestic employees were involved.

FINANCIAL TIMES

Published by The Financial Times (Europe) Ltd., Frankfurt Branch, represented by E. Hugo, Frankfurt/Main, and, as members of the Board of Directors, F. Barlow, R.A.F. McClean, G.T.S. Damer, M.C. Gorman, D.E.P. Palmer, London. Printer: Frankfurter-Societäts-Druckerei-GmbH, Frankfurt/Main. Responsible editor: C.E.P. Smith, Frankfurt/Main. Guiollettstrasse 54, 6000 Frankfurt am Main 1. © The Financial Times Ltd, 1986.

FINANCIAL TIMES, USPS No. 190640, published daily except Sundays and holidays. U.S. subscription rates $365.00 per annum. Second class postage paid at New York, N.Y. and at additional mailing offices. POSTMASTER: send address changes to FINANCIAL TIMES, 14 East 60th Street, New York, N.Y. 10022.

Karpov (facing camera) ponders his next move.

Kasparov aims to check decline as crucial chess match is drawn

BY PATRICK COCKBURN IN LENINGRAD

THE crucial match in the world chess championship between Mr Garry Kasparov and Mr Anatoly Karpov ended in a draw yesterday after 21 moves in Leningrad. Mr Kasparov, the world champion, had been trying to recover after losing three games in a row.

Before his defeat last week, Mr Kasparov was considered certain to win the tournament, his third against Mr Karpov in three years, bringing to an end the rivalry between the two, which has bitterly divided the chess world.

The final 12 games are being played here after the first 12 in London. Mr Kasparov had built up a three-point lead, considered to be unassailable, until he lost three games in a row.

Mr Karpov's sudden success is attributed to Mr Kasparov's over-confidence. One chess expert said yesterday: "He suddenly started playing badly after the finest world championship games I have ever seen."

Specialists suggest Mr Kasparov made a mistake trying to win games at the opening rather than after several hours' play as in the past.

Two years

Yesterday's game had been regarded as crucial because it was felt that Mr Kasparov would be unlikely to recover from another defeat. Both men now have 10 points but, as reigning world champion, Mr Kasparov will retain his title if the tournament ends in a draw.

The contest is the culmination of more than two years' chess between the two. The first tournament, in which Mr Kasparov had first established a big lead, was terminated by order of Mr Florencio Campomanes, the Filipino president of the World Chess Federation, as Mr Kasparov seemed to have turned the tide after a long struggle.

Despite Mr Kasparov's victory in a tournament in Moscow which ended last November, his supporters have continually accused Mr Campomanes and the federation of bias in favour of Mr Karpov and his supporters in the Soviet Chess Federation.

In retaliation they are opposing the re-election of Mr Campomanes as president at a meeting in Dubai next November.

Greens nightmare for Rau

BY PETER BRUCE IN BONN

THE WORST thing that could happen to Mr Johannes Rau, Social Democrat (SPD) candidate for West German Chancellor in next January's election, would be to just fail to win an absolute majority in parliament here and for the radical Greens party to scrape back in as well.

That is because the Greens agreed early on Sunday afternoon to offer to help make him Chancellor (if they have enough seats) in order to be rid of Chancellor Kohl, who they regard as the worse of the two devils. Had Mr Rau spent just an hour at the Greens pre-election convention in Nuremberg at the weekend his nightmares about them would have multiplied, ten-fold.

The Greens seemed to be a party barely able to make decisions and deeply divided about decisions that were made. Governing Germany with them would probably be very taxing. The highlight of the conference was to have been a debate on whether, and if so how, to co-operate with Mr Rau. What actually happened bordered on farce. After six hours of debate exhausted delegates rejected more than 20 motions and adopted a woolly one on Saturday night offering to offer talks with the SPD if the parliamentary arithmetic made sense.

The next day opponents of the vote among the 640 delegates mainly on the left of the party who wanted strict pre-conditions attached to any talks, put a parody of the previous night's winner to the congress and nearly brought the house down It was so popular. The original would almost certainly have been voted down had it not been rescued, barely, by amendments demanding that the SPD agree to abandon nuclear power and remove US Cruise and Pershing missiles.

In between these two dramas, the party turned its attention to what will become known as the "Umbau" programme—its first attempt to detail an ecologically sound economic and industrial policy. A fascinating document, it contains policies that other "green" movements in Europe are bound to pick up on.

It would make travelling on anything other than train very expensive and it dreams about a steel industry burning mostly scrap metal and owned by the workers—the latter an idea borrowed from the unions. But it was never discussed.

EEC member states split over food radiation levels

BY QUENTIN PEEL IN BRUSSELS

FOOD SALES between member states of the EEC could be disrupted once again because of the fall-out from the Chernobyl nuclear disaster, unless officials in Brussels can reach last-minute agreement today.

Current regulations laying down the maximum radiation levels in food imported from Eastern Europe expire today unless the EEC governments can agree to extend them. Failure to do so would open the way for differing national standards, resulting in the need for food checks at frontiers which caused considerable chaos in the immediate aftermath of the accident in April and May.

Britain yesterday proposed a five-month extension of the present system, to allow enough time for new Community-wide standards to be negotiated.

Greece objects that the regulations are too stringent — they set maximum radiation levels of 600 becquerels for general foodstuffs, and 370 becquerels in milk for babies — at least for primary products which are subsequently processed.

France, the member state most reliant on nuclear energy for power production, also believes the rules are too tough, because they were imposed not on the basis of clear scientific evidence, but in response to public concern. However, the French Government would simply obtain rather than block a common decision.

How the Soviets misjudged Americans' outrage over Daniloff

THE DANILOFF affair which, with the release of its main actor by the Russians yesterday had the traditional happy ending demanded by President Ronald Reagan and the American people, has once again underlined both the differences and common interests of the US and the Soviet Union, writes Robert Mauthner, Diplomatic Correspondent.

When the KGB arrested Nicholas Daniloff, the Moscow correspondent of the magazine US News and World Report, on August 30 and, a week later, charged him with espionage, the Soviets clearly did not foresee the outcry that their action would cause in the US, let alone the threat that it posed for the proposed US-Soviet summit.

For the Soviet secret police—with or without the backing of their political leaders—the whole affair was a simple case of tit-for-tat, or so it seemed. Mr Daniloff was set up to appear as a spy—he was handed an envelope by a contact, which he thought contained newspaper cuttings but in fact held classified maps and photographs of Afghanistan — in retaliation for the arrest in New York a week earlier of a Soviet UN official.

The cases, as far as Moscow was concerned, were similar. The Soviet physicist working for the UN, Mr Gennady Zakharov, was also arrested by FBI officers while buying classified information on jet engines from a double agent. Moreover, Mr Daniloff was just about to leave Moscow after a five-year assignment and could therefore be tried quickly and expelled with relative impunity in return for the release of Mr Zakharov, or so the Russians thought.

The great mistake made by the Russians was to have underestimated the moral outrage of the American people when they are convinced that an injustice has been done. While the Russians look upon a journalist as just another pawn which can be sacrificed for the good of the nation, the Americans cherish the freedom of the press and speech.

Thus the Daniloff affair became a matter of high principle, which even threatened to undermine the fabric of east-west relations, and from which each side found itself increasingly difficult to extricate itself.

The fact that the expected freeze in US-Soviet relations did not take place demonstrates more than anything else the importance which both the super-powers attach to an agreement on nuclear arms control and the forthcoming east-west summit.

Mr Eduard Shevardnadze, the Soviet Foreign Minister, went ahead with his scheduled talks in Washington and New York with Mr George Shultz, his US opposite number, in spite of the diplomatic snub he had received with the expulsion, on the eve of the meeting of the Soviet UN officials.

And in the last resort, President Reagan's Administration, which had always maintained that no comparison was possible between a bona fide journalist and a spy who had been caught red-handed, appears to have agreed to a swap between Mr Daniloff and Mr Zakharov.

The deal, which will allow constructive preparations for the summit to take place and will undoubtedly improve the atmosphere at the Geneva arms negotiations, must certainly be considered to be in the common interest. Whether it meets the original American moral criteria is much more questionable.

Nicholas Daniloff: happy ending

Congress ready to override sanctions veto

BY NANCY DUNNE IN WASHINGTON

THE US House of Representatives is expected to vote today to override President Reagan's veto on economic sanctions against South Africa.

The Republican - controlled Senate could also vote to override the veto as early as tomorrow, thus giving the President his first major foreign policy defeat in Congress.

A two-thirds vote by both chambers is needed to override a presidential veto. The sanctions legislation was passed overwhelmingly in both houses, and even the promise of a "package of actions" to be instituted administratively—including the appointment of a black ambassador to South Africa—is unlikely to turn the tide for the President.

The "moderate" sanctions bill, vetoed on Friday by President Reagan, would, among other things, ban new investment by American companies in South Africa, cancel landing rights on South African Airways and prohibit the import of South African coal, steel, textiles and uranium.

Tha President has argued that the sanctions would hurt the South African blacks they are intended to help. He is still expected to announce his own very limited sanctions later this week, including a proposal to give $500m in aid to the black African countries bordering South Africa.

The White House needs to change the minds of 20 senators who voted for the measures in order to sustain the veto, and it seems not to be working hard at it.

New Jersey to sell $4bn stake in South Africa

BY WILLIAM HALL IN NEW YORK

THE STATE of New Jersey has sold in the last year $1.5bn of pension fund investments in companies doing business with South Africa and has increased the amount it plans to withdraw from South Africa-related investments from $2.7bn to $4.3bn.

Of the 20 US states that have voted to sell South African investments, New Jersey's programme is the second biggest after California's recently announced plans to sell over $11bn of investments. It has been estimated that planned sales by state, city and university bodies in the US could top $30bn over the next few years.

New Jersey is ahead of many states in its programme of selling South African investments. The programme is due to be completed by August 27, 1988. According to a report by the state division of investment it is selling stocks and bonds in over 100 companies on a list that is constantly changing. General Electric, for example, which had been considered a suitable investment has been put back on the blacklist following its takeover of RCA Corporation which has business ties with South Africa.

Robert Gibbens on hard times for Canada's exploration industry

The oil gamble that failed to pay off

CANADA'S great frontier oil and gas gamble of the last 20 years is over. Only a guaranteed oil price of $20 a barrel will send the companies back to the oilfields, even to those which are not in the frozen Arctic.

Since the oil price fall late last year, the cost to the country has been mounting. Only a quarter of western Canada's rigs are working, 40,000 oil and gas industry people are looking for jobs, industry budgets and cash flows have been cut in half, and only one-third of the oil projects and 10 per cent of the gas projects economic in 1985 can be justified by today's price of $15 a barrel.

Industry estimates suggest that by 1990 Canada will be a net importer of oil and by 1995 will be bringing in about 500,000 barrels daily. Only 6,000 wells will be drilled this year, less than half the 1985 total.

"Only one third of the oil and 10 per cent of the gas projects can be justified by today's price"

Three major companies which have led the Mackenzie Delta and Beaufort Sea exploration effort in the north will be pulling out completely by the end of the year. Others have gone sour on the potential of the Charlotte Islands area off British Columbia, and are pulling back from the Nova Scotia shelf in the east.

The Hibernia oilfield off Newfoundland is at severe risk because of the high cost of development of its considerable reserves. The news is being broken slowly, but the development of Hibernia is receding into the mists of the late 1990's, unless a price miracle occurs.

The social impact of the pullback from the frontier areas will be immense, coming on the heels of widespread shutdowns in the northern metal mining communities because of low commodity prices. But neither federal nor provincial governments have the financial resources to subsidise further exploration or development on the frontier.

Several hundred Canadian armed forces personnel had already left Inuvik, the main Mackenzie Delta and Western Arctic supply base, their role made superfluous by modern communications. With the decline in oil and gas exploration and development, the largest city north of Yellowknife had lost half its population by the end of 1985, and the new pull-outs may bring it down below 2,000.

Shell Canada left the Mackenzie Delta and considerable gas reserves two years ago. Dome Petroleum was forced out by impending financial collapse, leaving behind a small oilfield, lots of potential oil and gas, and 10 years of offshore experience with its drilling fleet.

Esso Resources Canada (Exxon), another pioneer of the north, has pulled out of the Delta and the Beaufort Sea, and now Gulf Canada, controlled by the Reichmann family of Toronto, is mothballing its C$600m (£297m) Arctic drilling fleet in a Beaufort harbour, unable to lease the equipment to the Americans for work on the Alaskan side of the Beaufort.

Tuktoyaktuk, on the north-east tip of the Mackenzie Delta, 2,000 miles north of Calgary, and offshore base for several companies, will be virtually silent after this autumn.

The rush to the north of the Arctic Islands began in earnest after the Prudhoe Bay oil find by Exxon and Atlantic Richfield in 1968. Fairbanks airfield at that time had the urgency of a D-Day military operation.

Gas was found first in the islands, in huge quantities, but it was much too expensive to develop and pipe south. Next came modest oil and gas finds in the delta but a 10-year ban was placed on building any pipeline south along the Mackenzie valley. Now it is too late and it is questionable how long companies will keep their permits current.

Ironically, Gulf this summer found the largest single Arctic oilfield so far — Amauligak in the shallow waters of the Beaufort Sea. It will have to await the next upsurge in oil prices.

The first blow has fallen in the east. Shell Canada is to pull out its exploration and development operation at Halifax this winter. The pioneer on the Nova Scotia shelf in 1963, Shell has found several sizeable gasfields, but at present world prices, development cannot be justified. Shell and its partners have invested about C$730m (£365m) drilling 63 wells offshore Nova Scotia, but reserves are now being downgraded because of lower prices.

This exercise will also have to be done for the Hibernia field, and it seems that only heavy Government subsidies to help the depressed local Newfoundland economy will move Hibernia ahead now.

"Wise companies kept looking for conventional reserves on the Western plains, where costs are low"

Alberta is also likely to have to dip into its own resources to develop its oil and gas reserves.

Bankruptcies are less common than restructuring and mergers among the smaller oil companies. The larger ones have such debt loads and pressures on cash flows that they are cutting back both upstream and downstream.

But the rundown has dramatically sustained the argument of some oil executives in the 1970s. They said that elephant-sized oil and gasfields were all very well, especially when Government funds were plentiful, that wise companies kept looking also for conventional reserves on the western plains, where costs are low.

IMF advisers stress growth push and debt strategy

BY PHILIP STEPHENS, ECONOMICS CORRESPONDENT

THE twin priorities facing industrial and developing countries are to strengthen growth in the major economies and to ensure the determined implementation of the debt strategy agreed last year in Seoul, the IMF's policy-making Interim Committee said yesterday.

In a communique released ahead of today's opening of the annual meetings of the IMF and World Bank, the committee pointed to the uncertainties over the outlook for industrial economies, despite the recent fall in inflation and interest rates.

"The reduction in the federal deficit sought by the US authorities has to be translated into fact; domestic demand growth has to be sustained at an adequate pace, especially in those countries whose relatively strong domestic and external positions provide them with room for manoeuvre; current account imbalances have to be reduced, not least because of their role in encouraging protectionist pressures; and structural impediments to the growth of output have to be tackled," it says.

The Committee, which groups 22 industrial and developing countries, highlighted the deterioration in export earnings of developing countries caused by falling oil prices and weak international commodity markets.

"Committee members stressed the importance of determined implementation of the strengthened debt strategy introduced at the Seoul meetings. They agreed that a satisfactory resolution of the debt difficulties facing the indebted countries was dependent on three basic requirements: effective policies in the indebted countries themselves, aimed at mobilization of domestic savings, improved allocation of resources, and the maintenance of external competitiveness; satisfactory growth in, and access to, export markets; and adequate external financial support for growth oriented programmes of adjustment."

The communique notes tha decline of commercial bank lending to indebted countries, adding that it should now play a greater role in easing their problems. The Fund, meanwhile, will maintain its enlarged access policy in 1987.

It expressed concern that protectionist pressures had intensified, adding that "the major trading nations have a special role to play in keeping markets open and tackling trada problems flexibility."

The Committee also urged the IMF to develop further the use of indicators of economic policy and performance to enhance its surveillance rola over leading industrial nations. "A key focus of indicators should be on points of interaction among national economies, in particular developments affecting the sustainability of balance of payments positions and on the policies underlying them," it says.

The communique makes it clear that there was no agreement on the new allocation of IMF special drawing rights sought by many developing countries and soma industrial nations, which will be discussed again at its next meeting in April.

THE Inter-American Development Bank is finally making progress towards an agreement on a capital increase that would allow it to step up its lending to Latin American countries in keeping with the Baker Plan on easing the developing country debt problem, reports Peter Montagnon.

At meetings on the fringe of the International Monetary Fund, its committee of governors have been able to narrow some of the differences that have seen their discussions stalled for more than six months.

Mr Antonio Ortiz Mena, IADB President, said he now hoped agreement on a capital increase could be reached at one more meeting in November.

Still to be resolved is the most contentious issue, involving voting procedures for loan approvals for which the US has been seeking a 65 per cent majority. But substantive discussions have now started on the size of the increase, expected to be between $20bn and $25bn, as well as on other disputed areas such as the bank's policy on non-project lending in support of debtor economies.

Why Mexico's bank creditors are reluctant

BY PETER MONTAGNON, EUROMARKETS CORRESPONDENT

COMMERCIAL BANKS have stumped up fresh loans for debt-ridden developing countries on so many occasions since the debt crisis started four years ogo that it has become almost axiomatic to assuma that, however reluctant they are, they will always continua to do so.

Yet as talks between Mexico and its creditors on e new $6bn loan package reached a critical stage bere yesterday, it hegan to look as though this basie fact about the debt problem might no longer bold true.

For bank creditors heve bad to wrestle with their conscience over Mexico in a way that is different from past occasions wben they beve been asked to put up money. This time round, resistance to the idea of putting up fresh loans is not coming just from smaller banks with little to lose.

To tha exsperstion of top central bankers and officials from western countries, even some of the larger creditor banks who have alweys played the game in the past have begun to doubt the wisdom of the present approach.

These doubts go deeper than mere argument about the interest margins Mexico should pay in return for new money. As political pressure from governments has mounted over the last few days major banks have been asking themselves e more fundamental question. Is a new loan of $6bn really going to do much to help restore Mexico's creditworthiness? And if not ,would it be compatible with sound commercial banking practice?

In the early days of the debt crisis, fresh infusions of capital were much easier to justify. It was possible then to argue that the problems faced by the debtors were essentially short term ones. Fresh loans would help them over their liquidity problems and preserve the smoothe running of the world financial system, while the debtor countries set their own house in order. Now that banks have begun to set aside loan loss provisions against their developing country loan exposure, tho question is not so clear-cut.

PRESSURE on both Mexico and its bankers to conclude an agreement has been intensifying at the meeting, with the IMF's policy-making Interim Committee saying in a statement it "hoped the package can be finalised promptly," Peter Montagnon writes.

Mr Jacques de Larosiere, IMF managing director, declined to say what would happen if there was no agreement on the bank loan and the IMF arrangement lapsed, but hinted that the agreement with the bankers would not have to be detailed and specific. "What I'm counting on today is a basic agreement. That is what I think is doable," he said.

The deadline imposed on Mexico and its commercial bank creditors earlier this month as a means of speeding up the talks has come to be seen here as something of a millstone given slow progress in the loan negotiations.

Barring a last-minute breakthrough, one option for the IMF would be to ignore outstanding differences and simply "declare victory," as one official put it. This would involve a loosely-worded commitment by bank creditors to proceed with the loan on the understanding that detailed terms still had to be worked out.

Mexico's loan request marks the first major rescuo operation involving new money for a debtor country in more than a year. It is supported by what many bankers see as e weak International Monetary Fund adjustment programme. Political uncertainty in Mexico is growing, ahead of the presidential election in two years time, and, worse still for the banks, the loan request.

It is thus hardly surprising that even leading creditor banks who sit on the Citibank-led advisory committee handling the Mexican negotiations should have begun to have their doubts. One answer for them might be to agree to a deal and then leave it to the broader market to judge. But the committee has been worried about its credibility. It did not want to agree to anything which it cannot sell to all of Mexico's 500 bank creditors around the world.

Mexican Finance Minister Gustave Petricioli (left) with World Bank president Barber Conable.

For some large banks there is now less worry than before over what could happen if they fail to put up new money. Mexico has threatened to start withholding interest from its creditor banks and that means it would quickly start building up substantial arrears on its $97bn foreign debt.

It was clear that bank creditors were still working hard to try and reach an agreement as last night's deadline approached. To the banks on the advisory committee a satisfactory agreement would reflect the commercial risks involved.

That is why they have been putting up such a strong fight over interest margins. To accept the "concessionary" rates thet Mexico was demanding would have meant there could be no illusions left. Banks would have had to concede that it is now the politicians, rat‑r than the financiers, who are in the driving seat.

CONFLICT IN ANGOLA

War with few signs of solution

Buildings are crumbling, most shops have bare shelves and Angolans have reverted to bartering for rationed goods in a city scarred by war and neglect, reports Victor Mallet, recently in Luanda

BURSTS OF automatic gunfire mark the beginning and the end of tha midnight to 5 am curfew in Luanda, while Soviet-made battle tanks are among the few goods being unloaded in the docks. Angola's capital is a city scarred by war and neglect.

Buildings are crumbling, most shops have bare shelves and the streets and the seafront promenade reek of raw sewage. Cash dispensing machines have fallen into disuse while citizens revert to bartering for rationed goods.

Angola's Marxist-Leninist ruling party, the Popular Movement for tha Liberation of Angola (MPLA), has shrugged off a sharp fall in the price of oil, its main export, and is single-mindedly pursuing an 11-year-old civil war against rebels, backed by tha US and South Africa, of the Union for the Total Independence of Angola (Unita).

The hitherto stalemated conflict is increasingly involving tha two superpowers and tere are few signs of a solution, although the MPLA has recently mada cautious political and economic overtures to the West and is reported to have held secret talks in London with the rebels.

Widespread attacks

Over the past year, Unita attacks have become more widespread, leaving a line of towns in the south defended by Cuban troops and Luanda itself among the faw safa regions in the country. The pro-Western guerrillas, based in the south-east near the border with South African-controlled Namibia, hold no major cities, but they have seriously disrupted road and rail transport, agriculture and the diamond mining industry.

Ironically, it is oil produced by American companies in the far north which props up the shattered economy and funds the Marxist Government's war effort against the rebels. Oil provides more than 90 per cent of Angola's foreign exchange earnings.

Angola, potentially one of Africa's richest and most fertile countries was left in chaos when some 300,000 Portuguese colonists fled in panic at independence in 1975. The three rival guerrilla groups who had fought against the Portuguese soon reverted to fighting each other as their coalition administration collapsed. The third group, the National Front for the Liberation of Angola (FNLA) is now virtually out of the running.

Unita, led by the charismatic Jonas Savimbi, apparently receives some military aid through Zaire to the north-east, but most of its support comes from South Africa by way of Namibia. The Reagan Administration, now at loggerheads with the US oil companies in the country, is starting to supply weapons to Mr Savimbi's guerrillas, while Soviet advisers are halping to direct tha Government troops and their 35,000 or so Cuban allies. Airports such as Lubango in the south are bustling with army and air force activity.

Last year Unita crushed a government offensive advancing on its base at Jamba in the south-east with the help of e South African air strike. This year the MPLA has accused the South Africans of two assaults on its forwerd positions at Cuito Cuanavale, although Unita, pledging to intensify the war, said the attacks were carried out by its own forces to pre-empt e new government offensive.

Export route

Unita's tentacles stretch to tha far north of the country and Government troops have reported clashes in the central Moxico province as they try to cut the guerrilla's north-south lines of communication. Unita influence in the central region remains strong bowever, and the Government has little bope in the short term of reopening the Benguela railway, a possible export route for southern African countries reluctant to use South African ports.

Amputees on the streets of Luanda and other cities bear witness to Unita's cruellest weapon, the landmine. Some are planted on roads to disrupt transport and others concealed on paths in and around fields to disable farmworkers and prevent crop production.

A Government report says that in the provincial capital of Huambo alone, some 65 patients receive medical assistance for tha fitting of prostheses every week and some 600 crutchee are being prodnced and/or repaired every month.

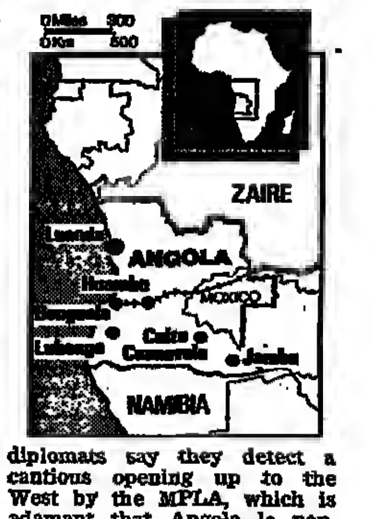
The international committee of the Red Cross says it produced 572 artificial limbs last year, and the Government speaks of some 20,000 amputees in the whole country. Convoys from Luanda to the east of the country can take up to two months to reach their destinations because of the danger of mines and ambushes.

Unita is supported by the Ovimbandu ethnic group, Angola's largest, which is under-represented in the Government. Mr Savimba, with an estimated 20,000 apparently well-disciplined fighters pitted against the Government troops, many of whom are conscripts, has offered to negotiete with the MPLA about power sharing.

But the Government, in public at least, says the rebels are mere bandits who would quickly collapse without South African support. Officials deny that any talks have been held with Unita in London.

President Jose Eduardo Dos Santos has called for talks with President Raagan, urging him to stop supporting Unita and the South African presence in Namibia. Washington and Pretoria insist that the Cubans must pull out of Angola if a UN plan for Namibian independence is to be implemented, whila Angola replies that the Cubans are required only because of the South African occupation of Namibla and its frequent forays from there into Angola.

Angolan Government policy-making is condncted largely in secret by the 13-member politburo and the 90-member central committee, but Western diplomats say they detect a cautious opening up to the West by the MPLA, which is adamant that Angola is non-aligned and not a Soviet client state.



A vacant plot of land in the diplomatic quarter overlooking central Luanda has been reserved for a future ambassy of the United States, which does not yet recognise the MPLA Government. Last year Angola signed the third Loma convention between the European Community and the developing countries, and is receiving increased project aid, expected to total Ecu 95m between 1985 and 1990, as a result.

'Good profits'

Mr Franca van Dunem, Angola's Justice Minister said that the US has said that it has some influence on the South African government and that it could belp in bringing about e peaceful solution to this problem of southern Africa. "We have several times set up talks with high officials of tha American Government . . . because we believa that tha US could halp in solving these problems," he said. "We have never refused to do business with Western countries and some of them are making very good profits out f it."

American films are showing at most of Luanda's cinemas, contrasting oddly with the Eastern bloc-style propaganda which dominates tha official media.

Over the past two years, the MPLA has begun to loosen its highly centralised grip on the economy after serious failures. It has, for example, started giving priority to smallholders instead of the giant state farms in a bid to reactivate agricultural production.

As always, civilians are suffering in the war. About 600,000 people are thought to be in need of emergency assistance out of a total population of some 8.6m and the International Red Cross is condncting one of its most expensive relief operations, airlifting supplies to the hungry round Huambo in the central plateau. Hundreds of thousands of people are refugees from the war zones, and there are a further 80,000 refugees in Angola from Namibia and South Africa.

The effects of the fighting in Angola reach far beyond its borders, to Washington and Mocsow and to neighbouring Zambia and Zaire. Angola has been at war for a quarter of a century and the bloodshed seems certain to continue unless the MPLA and Unita can reach a compromise, or one side defeats the other. Neither is likely to happen quickly.

S Africa poised for growth, says central bank

BY JIM JONES IN JOHANNESBURG

THE South African Reserve Bank (SARB), which for the past year has been single-handedly attempting to pull the economy out of its worst recession in 50 years, believes the country is poised for growth and that prospects for foreign debt repayments and international reserves have brightened.

Real gross domestic output rose at an annualised rate of about 1.5 per cent in the second quarter of the year, the bank estimates in its September quarterly bulletin.

Though this followed a 2.5 per cent drop in real Gross Domestic Product (GDP) in the first quarter of this year, the bank says that growth in three of the past four quarters shows that the bottom of the economic cycle was reached in the second quarter of 1985.

Nevertheless, it reports that real GDP was lower in this year's second quarter than in the corresponding quarter of 1984.

Current economic strategy is based on domestic stimulation, particularly as sustained export-led growth is becoming problematic with tightening sanctions.

The SARB has tried to stimulate domestic demand by means of progressive bank rate cuts which have led the commercial banks to cut their common prime overdraft lending rate to a current level of 13.5 per cent from the high point of 25 per cent at which it stood in May last year.

Even though the prime overdraft lending rate is more than 5 percentage points below August's 18.7 per cent inflation rate, consumers and businessmen have not been encouraged to increase their spending or borrowing at rates the SARB believes are necessary for domestic-led growth.

This was underlined by latest money supply figures which showed the critical M3 measure rising at a year-on-year rate of only 9.15 per cent in August against the SARB's 16-20 per cent target range. Growth in M3 has been consistently less than the SARB's target range since March this year.

Real private consumption expenditure recovered in this year's second quarter from its first quarter fall, while higher real output by the wholesale, agriculture and motor trade sectors marginally offset the declines of 2 per cent and 7.5 per cent respectively in the manufacturing and retail sectors.

Last week, the South Africans successfully resisted demands by foreign creditor banks that debt repayments be accelerated in the wake of higher gold prices and foreign earnings.

The next round of foreign debt repayments will be negotiated in April next year. In the second quarter of this year, the SARB reports that higher merchandise and gold export revenues restored the current account of the balance of payments to an annualised R8bn while in July and August the country's gross gold and foreign reserves increased in dollar terms.

Togo captives say they were recruited in Ghana

CAPTURED guerillas accused of attempting to overthrow Togo's President Gnassingbe Eyadema said yesterday that they were recruited in Ghana and were armed and trained in Burkina Faso, Reuter reports.

Interior Minister Kpotivi Tevi-Djidjogbe Lacle, who presented the captives at a news conference, said they reported that they were ordered to kill President Eyadema and install Mr Gilchrist Olympio, son of Togo's first post-independence president, in power.

Had President Eyadema been killed in the coup attempt last Tuesday, about 200 troops from leftist-ruled Burkina Faso, which borders Togo to the north, would have provided support to the new regime, Mr Lacle said.

The plan was to kill President Eyadema and set up a 10-member Provisional Council for Togolese Redemption which would have given way to a government headed by Mr Olympio a week later, he added.

Ten manacled prisoners were present at the news conference in the headquarters of Togo's ruling Togolese People's Rally (RPT).

The prisoners said they received their first training at a Ghanaian military camp called Asenyam after being recruited last January by three Togolese exiles.

Mr Lacle said most of the guerrillas were Togolese living in Ghana, although two Ghanaians were among eight rebels killed in last Tuesday's attack on President Eyadema's barracks home and the national radio building.

Egyptians use their heads as stairway to Islam

By Tony Walker in Assiut

"OUR AIM," said Dr Mahmoud Ahmed, a bearded engineering professor, "in creating these special schools is to produce young people who understand Islam so we can change the whole society."

At the Alandalus Islamic Primary School in Assiut, a city regarded as a centre of religious extremism in Egypt, young children dressed in the green of Islam were preparing for the first day of the school year which began with assembly in a dusty courtyard at which God was praised by several hundred young voices, chanting in unison.

"Islam is growing stronger," they cried under the gaze of veiled teachers. "O God, please answer our prayers . . . we are using our heads as a stairway to Islam."

The Assiut primary school, run privately by Islamic groups, is representative of a burgeoning Islamic infrastructure throughout Egypt that is penetrating almost all aspects of the society, carrying with it profound implications for the future of the country.

The strengthening Islamic trend is thrusting into the education system, into the provision of social services and health care, into banking and business, and inevitably into the Government, armed forces and security apparatus.

The Alandalus (which is the Moorish word for Spain) Primary School, one of four such institutions in Assiut, appears well run in contrast, its organisers say, to state schools which are attracting increasing criticism from Egyptians from all sections of the community disappointed over standards of education.

"Most educated people don't want their children to be in government schools," said Dr Ahmed, who spent six years studying in America. Proof of the popularity of Islamic education is that only about one in five applicants can be accommodated at Assiut's special schools.

At the entrance to the school, veiled women registered new arrivals beneath a series of pictures that left little doubt that one of the institution's functions is to encourage a belief in a militant brand of Islam from a very young age.

The first picture in the tableau showed a young man silhouetted against a clenched fist. Its caption read: "Islam is Power."

The concluding poster in a series of six showed a figure gazing towards the Kaaba, Mecca's holiest shrine, flanked by American and Russian flags bearing crosses and the words "Islamic: Neither East nor West."

The school curriculum includes a heavy dose of religious instruction. In first grade (six-year-olds) Islamic studies occupy 12 lessons a week or about one-third of the total. It is reasonable to assume that reference to Islam suffuses courses in Arabic language, maths and general studies.

Surprisinigly, perhaps, English is taught from the earliest grades, unlike Government schools where it is taken up much later and with less emphasis. Dr Ahmed explained that concentration on English is a recognition that it is a language of learning.

Spokesmen for the Islamic tendency in Assiut, a city of some 300,000 on the Nile, make little secret of their determination to build Islamic institutions systematically from the grassroots.

A professor at Assiut University said Islamic education and welfare programmes are part of a revolution that might take decades to realise its aim, which is the creation of an Islamic state in Egypt.

It appears that the Islamic trend is winning coverts simply by providing better services than overtaxed government institutions.

Representatives of Islamic groups in Assiut insist they are funding educational and welfare institutions from their own resources. They deny receiving assistance from outside in spite of frequent claims by critics of the Islamic trend that funds are flowing in from Saudi Arabia and Iran.

The power of Islamic organisation is centred in part on the mosqne which provides a powerful focus for all other activities. As government institutions shudder under the weight of the population explosion and Egypt's economic difficulties, the Islamic alternative appears, inevitably, more attractive.

It may be the more spectacular examples of Islamic agitation in Egypt such as demands for the immediate application of Islamic (Sharia) law that make the headlines, but it is at a much more basic community level that real gains are being made by the religious trend.

Dr Rashed Habib, a professor of geology at Assuit University and an acknowledged leader of the fundamentalist tendency in the city, said: "We are in a mess. No one knows what they're doing. People are seeking a new way. It may take time, but there is no other choice."

Israel brings mass murder charges against Demjanjuk

BY ANDREW WHITLEY IN TEL AVIV

CHARGES OF mass murder were brought by Israel yesterday against Mr John Demjanjuk, an alleged Nazi war criminal accused of killing tens of thousands of Jews at the Treblinka concentration camp in Poland.

A 26-page indictment filled with often horrifying details accused the Ukranian-born man of "crimes against the Jewish people, crimes against humanity, war crimes and crimes against minorities." On each charge he could be sentenced to death.

Mr Demjanjuk, 66, was extradited from the US in February, after being stripped of his US citizenship for concealing his alleged Nazi background. Israel believes he was the sadistic death-camp guard known as "Ivan the Terrible."

The trial, scheduled to commence in late December or early January, will be only the second of this nature to be held. The first trial was that of Adolf Eichmann, who was hanged 24 years ago for his central role in the extermination of 6m Jews during World War II.

Mr Demjanjuk, a retired car worker, has maintained throughout his long legal battles—first in the US and subsequently in Israel—that he is a victim of mistaken identity and of a KGB plot.

The continuing identity doubts appear to be the main line of defence being pursued by Mr Mark O'Connor, his US lawyer. The usually cheerful Mr O'Connor said yesterday he expected a fairer trial in Israel than had taken place in the US.

Concern over the strength of the State of Israel's case against Mr Demjanjuk has grown with the exceptional time it has taken to put together the formal indictment, presented yesterday in a Jerusalem District court.

At one stage, it was speculated the case might have to be dropped because of inconclusive evidence.

It is alleged that the chief task of the Treblinka prison guard known as Ivan the Terrible was to operate the motor of the gas extermination chamber, but that he was notorious for his sadistic and brutal treatment of the inmates.

The charge sheet says that the man now known as John Demjanjuk tortured many of his victims to death.

Australia in bid to boost Civil Service efficiency

BY RICHARD HUBBARD IN CANBERRA

AUSTRALIA has moved to match demands for major changes to restrictive work practices in the private sector by announcing a reform of Civil Service employment conditions to improve efficiency.

As a first step, the Government has decided to appoint a private sector management consultant to undertake a review of public sector operations.

Prime Minister Bob Hawke said last week that the public sector has traditionally enjoyed work practices that the country can no longer afford, and that as the largest employer in the country the Government had to set an example.

The role of public sector managers will be aligned much more with those in the private sector under the changes, giving them far greater flexibility over staff selection, dismissal and promotion.

The central plank of the reform package is the setting-up of an efficiency scrutiny unit of seven people to be headed by Mr David Block, an adviser to the accountancy firm Coopers and Lybrand.

The civil service reform package also includes rationalisation of more than 48 job classifications.

All the moves are designed to complement the changes the Australian Government is implementing in order to maintain the enhanced competitiveness of industry.

Police head off warship protest

By Chris Sherwell in Sydney

AUSTRALIAN Marine Police yesterday thwarted protests by scores of waterborne anti-nuclear demonstrators seeking to disrupt the arrival of 26 foreign warships in Sydney Harbour.

The ships, including the British aircraft carrier HMS Illustrious and the US Seventh Fleet's flagship USS Blue Ridge, lined up with more than a dozen Australian vessels at the start of a week's celebrations for the Royal Australian Navy's 75th birthday.

Police skilfully headed off the protesters, who were clearly outnumbered by welcoming Australian craft.

The protesters claimed some of the British and US ships posed a threat because they are nuclear armed.

Taiwan opposition forms new political party

BY BOB KING IN TAIPEI

TAIWAN'S opposition politicians have taken the unprecedented and possibly dangerous step of announcing the formation of a new political party.

The surprise announcement by moderate opposition members that they have formed the Democratic Progressive Party flies in the face of martial law under which the ruling Nationalist Party has effectively stifled opposition for almost 40 years.

Martial law-euphemistically termed "temporary provisions effective during the period of Communist rebellion"— effectively curtails certain human rights guaranteed by the 1946 constitution.

Although the "temporary provisions" do not specifically prohibit the formation of new political parties, in practice any attempt to form one has in the past been treated as sedition.

The Government has as yet made no comment on the announcement. "They are still thinking it over," said Mr Chiang Peng-chien, an opposition member of parliament.

The lack of official response may reflect an astute attention to detail on the part of the moderates who drafted the declaration.

They were careful to distance themselves from more radical figures who recently set up the "Taiwan Democratic Party" in the US.

WORLD TRADE NEWS

Brussels delegates win Tokyo pledge on whisky duties

BY GORDON CRAMB IN TOKYO

WHISKY carries a system of levies in Japan which prices imports of scotch and its Irish counterpart almost out of the market, according to a European Commission trade delegation holding talks in Tokyo. The talks ended yesterday.

The Brussels representatives, who met finance, trade, foreign affairs officials, say they have now won assurances that the taxes and duties – which effectively more than treble the price of a bottle of scotch as it lands on the quayside – will be reviewed.

But they are less than satisfied with the result of their visit. The commitment they have been given, which also covers wine and other spirits, carries no deadline. Moreover, it is to come only in the context of a wide-ranging examination of the country's tax structure planned by the Nakasone Government, in what is likely to be a protracted exercise.

Mr Jos Loeff, the Commission's deputy director-general responsible for relations with Japan, stopped just short at a press conference last night, of threatening retaliatory action.

He said his report to the Council of Ministers in October "will give options for actions," adding that the Japanese had offered "no clear indications as to what way the problem might be addressed."

On some of the issues, he said he now sensed a greater willingness at a higher political level to see changes made. "But if there is no tax reform, we still want a solution to the problem."

Scotch sells in Japan for upwards of Y4,000 (about $26) a bottle. Shipments have been declining, to about 1.8 cases a year from o peak in 1979 of 2.5m.

Yugoslavs and Turks to build dam in Iraq

BY DAVID BARCHARD IN ANKARA

A CONSORTIUM made up of Enka Insaat of Turkey and Hydrogradnje of Yugoslavia signed a contract in Baghdad yesterday to build a 6×250 MW dam and hydroelectric power plant at Bekhme on the Great Zap River in northern Iraq. The contract is worth 480m Iraqi dinars ($1.5bn).

Bechtel Corporation of the US is to act as management consultants to this group, rather than be e member of the consortium as had been earlier reported.

An announcement by the Enka Group in Istanbul said that 30 per cent of the contract value would be paid in dinars, 20 per cent in dollars and the remainder would be paid in promissory notes.

Of this 5 per cent would be paid as an advance; 2.5 per cent at the provisional acceptance, 2.5 per cent at the final acceptance, and the remaining 90 per cent in monthly progress payments. Eighty per cent of the advance will be paid in dollars, the remainder in Iraqi dinars.

The dam, designed by EPDC of Japan, will be rock filled. There will be 2.5m cubic metres of underground excavation, with the power station and much of the work being underground.

A turnkey housing complex is also included in the project.

China cuts import duty on consumer goods

By Robert Thomson in Peking

CHINA is to cut duties on a range of imported consumer goods by up to 50 per cent. Analysts here are unsure how widely the cuts will be applied and believe they will have limited impact on the import volume of consumer goods.

The General Administration of Customs said the cuts would be introduced on goods carried in personal luggage or posted to China.

Duties on washing machines and other household electrical goods will be cut from 100 per cent to 50 per cent, while that on cameras and video recorders will fall from 150 per cent to 100 per cent from October 1.

A Customs official, quoted in the official China Daily, gave no reason for the reductions other than to say: "It will improve the country's policy of opening to the outside world."

The administration could not clarify whether the cuts would also apply to consumer goods imported by Chinese trading corporations.

Consumer imports are now strictly controlled by licences granted rarely by the Ministry of Foreign Economic Relations and Trade. Duties on consumer durables were doubled early last year after the Government was disturbed by a large influx of such goods that contributed to a slump in the country's foreign exchange reserves.

● Joint venture companies in China's three special economic zones in Guangdong province, in the south, will be allowed to issue stocks and bonds in China and overseas, under regulations introduced by the provincial government.

Frank Gray on how one countertrader is fighting back

Bartering is back in business as project-tied trade fades

THE LACK of project business is prompting the world's big countertrade specialists to fall back on more traditional trading methods—tho swepping of one country's commodities for another's.

The use of barter to boost commodities trade looks like taking up much of the sleck caused by the fall in project-related countertrade business because of tha continued weakness in world commodity prices and the increasing exposure to the benefits of countertrade shown by developing countries during tho so-called barter boom of recent years.

This view was expressed in London recently by Mr Siegfried Hodapp, president of MG Services, the New York-based headquarters for the countertredo division of Motallgesellschaft of West Germany, the raw-materials trading group, and the Louis Dreyfus grain trading company of France.

MG Services, established four years ago as countertrade began to gather pace, also operates offices in London, Frankfurt and Paris. It has about two dozen offices worldwide. It vies with Philipp Brothers of the US as the world's largest countertrader.

MG Services benefits from tho international activities of its two parents in the metals and grain trade. But it also has ridden on the coat tails of West Germany's project and general trading business abroad. Germany is by far Europe's biggest trading nation.

It was not discouraged by the recent collapse of a bid by Kraft Werké Union, the power station builder, to build a nuclear power station at Sunan, near Shanghai.

The proposed deal, to build two 1,000 MW nuclear reactors, would have been worth DM 4bn (£1.2bn), and the bid, heavily tied to a countertrade commitment by MG Services, was sholved when the Chinese decided to withdraw the project from their five-year plan.

Mr Hodapp says the Chinese were impressed by the countertrade olement of the bid and have retained MG Services to use its barter skills to move Chinese goods, such as cotton, metals and oil products, on to Western markets.

The company is watching keenly Romania's noclear programme. Tho country has probably suffered the worst energy shortages of any Comecon state in the last five years.

Construction is proceeding slowly on the first phase of its first nuclear power plant involving two reactors for Canada. Negotiations on the second phase, which would incorporata five reactors, is understood to be near completion apart from a policy re-evaluation by energy authorities in the face of tha Chernobyl disaster. Tha second phase, also involving the Canadians, could involve countertrade of up to $600m (£418m).

Such project-related opportunities are providing rare and fast yielding to two-way commodities trade programmes which have to be innovative given the crude oil price fall.

MG Services has scored two big conventional countertrade successes this year. In the winter, it joined forces with three other trading companies to sign a $400m deal to move a range of commodities and light manufactured goods into and out of Pakistan.

The deal is aimed specifically at helping Pakistan boost overall trade and reduce its chronically high trade deficts.

The deal has not been without problems. MG Services, Sukden, the French trading company, Prudential Bache of the US and Mitsubishi Trading of Japan have not yat been able to ship anything into Pakistan, because of the lack of a rupee allocation by the Government to tha state trading corporotion. Yves Kupfermunz, MG Services' London managing director, says the company is taking the long view and, the deal having been struck, is showing its faith by lifting with Sukden Trading, soma Pakistan products in expectation that Islamabad will soon solve the pbroblems.

A similar deal, but one far less influanced by Government concerns over trado imbalances, was signed last month between the company and tho Metals and Minerals Trading Corporation of India.

Under the accord, the state-trading group, specialising in hard commodities, will take from MG Services $200m in fertiliser, metals, rock phosphates, chemical compounds, steel, asbestos and other products.

In exchange, MG Services will lift Indian goods of equivalent value to be shipped to non-traditional markets such as Latin America, Africa and Asia. The goods include engineering products; minerals and agricultural goods, such as cotton, rice and wheat; textiles; carpets; leather goods and chemicals.

A common link between the Indian and Pakistan deals was the company's success in stressing the value of countertrading goods in "basket" form rather than item-by-item or government-to-government. This factor may lead to a similar deal soon with India's State Trading Company which would involve sugar end palm oil.

Mr Hodapp admits the countertrade outlook has changed beyond anyone's expectations. At the height of MG Services' support for Indonesia's rigid countertrade programme during the oil boom, tho company gained a reputation as the world's largest plywood trador.

It was expected most of south-aast Asia would follow the Indonesian example of a highly structured Government-controlled countertrada policy tied to foreign investment. But, with the oil price fall balkalnisation has set in.

In China, Mr Hodapp notes, the decentralisation of dacision making has proceeded eo quickly that price differences of up to 10 per cent are occurring among different otate and regional organisations.

Although the company has long traded in oil products, it is now becoming cautiously activa in trading in crude. Its interest in supporting Middle East clients is prompted by the Kuwait Government's 20 per cent shareholding in its West German parent.

MG Service notes that it is prepared to take a position on oil prices against a falling market. This it is more able to do than banks because it can take title to goods for which there is no immediate market.

"We provida not only financing but the service of hedging the commodity, in this caso oil, for the producer,"

The volatility of the oil market is forcing MG Services to tread warily. With its Wost German parent, it was invited a year ago by Austria to find a way of linking with Voest Alpine Intertrading (Vait), the troubled trading arm of tho Austrian steel and engineering group. At that time, Vait was immersed in problems stemming largely from badly executed oil barter deals with Iran et tha outset of the price fall. It is understood little progress has been made during long negotiations between the two groups.

GE beats Rolls-Royce to Indian aero deal

By John Elliott in New Delhi

INDIA has issued a letter of intent to General Electric of the US to supply 10 aero engines for a light combat aircraft project. This marks a big advance in collaboration on defence equipment between the countries.

It means that GE has overtaken Rolls-Royce of the UK, which had hoped to be the main collaborator on the engines with its RB-199 power plant.

The contract is to be negotiated with GE is expected to be worth about $40m (£28m) and may be followed by further orders, depending on how quickly India develops its own engine for the fighter, expected to fly in the 1990s.

This is the first big US defence sale to India since it cut off defence supplies after the 1965 Indo-Pakistan war. But both Governments have been exploring ways of increasing defence and computer sales during the past year. The deal is expected to be discussed next month when Mr Caspar Weinberger, the US Defence Secretary, visits India.

Potential objections in both India and the US to the engine ordor have been reduced because the engines will be used only for development work and not in combat. They are, therefore, less oensitive to possible cancellation or delay.

Other US companies which have been trying to gain part of tha combat aircraft project include Northrop, Rockwell and Grumman. The GE engine involved is the F-404.

Move to stop Soviet customs corruption

By Patrick Cockburn in Moscow

THE Soviet Union has ostablished an indopendent board in charge of customs after a series of ccrruption scandals involving officials from the Foreign Trade Ministry.

Mr Vladimir Bazovsky, a former ambassador, appointed Director of tho Customs, which now comes directly under the Council of Ministers told the daily newspaper, Izvestia: "We have only started rebuilding."

The drive against corruption has already led to the arrest at the start of the year of Mr Vladimir Sushkov, a former deputy Foreign Trade Minister, for smuggling. Izvestia said without the new rules Mr Sushkov would havo "continued to go back and forth betwoan Moscow and the capitals of other states breaking all tho rules."

Mr Bazovsky said customs officials faced long hours, poor pay and few perks in the form of housing or travel passes. He implied in his interview thet this was one reason why some customs officials had been corrupted.

Describing the problems fecing Soviet customs, Mr Bazovsky said drug smugglers started using Moscow as a transit point in 1976 when Western airlinos started routeing flights from south east Asia through Moscow.

Mr Bazosvsky said professional smuggling of paintings ont of the country and high quality consumer items into the USSR had become common in the 1980s.

Finland raises fears over big Soviet trade surplus

BY OLLI VIRTANEN IN HELSINKI

FINLAND'S huge trade surplus with the Soviet Union has raised questions of unlawful trade subsidies in Finland.

If the two fail to agree how to finance the surplus, which will amount to FM 4bn (£570m) this year, and even more next year, the Soviet Union will, in effect, receive a massive free loan from Finland.

Mr Esko Ollila, Finland's Finance Minister, said if the problem could not be solved. Finland might be accused of unfair trade practices by Finland'e western trading partners.

According to the bilateral trado protocol a surplus of roubles 300m (£270m) either way is acceptabla.

The two countries are now urgently trying either to eliminate the surplus or set it to an interest-bearing account.

The problem is that officials, particularly in Moscow, regard the position as temporary.

Moscow wants to cut imports of machinary and forest industry products and loava consumer goods untouched. Finland's national energy company, Nestle, is still negotiating the purchase of additional amounts of crude oil to be traded on international markets. This would further reduce Finland'e surplus.

Trade talks for 1987 were postponed until October when Soviet negotiators are due in Helsinki.

Alan Spence adds: Countertrade conditions in Eastern Europe are becoming tougher and less favourable to Western exporters, says Mr Josef Stulik, countertrade manager at the Bank of Helsinki.

Speaking at a conference organised by Countertrado and Barter Quarterly magazine, Mr Stulik said fulfilment periods for countertrade deals are becoming shorter and release clauses in the event of suitable East European goods not being available were now more difficult to incorporate into contracts.

Non-performance penalties are also increasing and in some cases now amount to 100 per cent of the value of the deal.

These difficulties, part of a strategy to boost exports and control imports, against a background of worsening debt and shrinking hard currency reserves, are compounded by o narrowing range of goods available for countertrading and tight restrictions on where they can be marketed.

NOTICE OF REDEMPTION

AGA AKTIEBOLAG

U.S.$30,000,000. — 9½% Convertible Subordinated Bonds due 1996

Notice is hareby given that, pursuant to the provisions of the Trust Deed dated ee of October 8, 1981 among Aga Aktiebolag, The Law Debenture Corporetion, as Trustce, end Bank of America International S.A., Luxembourg, as Principal Paying Agent, end in eccordence with tho terms and conditions of the Bonds, ell of the Convertible Subordinated Bonds, presently constituting US$1,383,000.— in principal amount, will be redeemed and prepaid on October 30, 1986 at 102% of tha principal emount thereof together with accrued interest thereon to soid redemption date at the price of US$11.88 per note.

Interest on said Convertibla Subordinated bonds shall cease to accrue on the redamption date and on said date the redomption price will become due end payable on each of said Bonds.

Payment of the Convertible Subordineted Bonds will be made upon presentation end surrender thereof, together with all coupons, oppurtenent thereto maturing subsequent to the redemption date, at the office of Bonk of Amarica Internationel S.A., 35, Boulevard Royal, Luxembourg, or at the option of the holdar, at Bank of Amarica N.T. & S.A., 34, Von Eycklei, B 2000 Antwerp 1, Bolgium, or Bank of Amarica N.T. & S.A., 25 Cannon Street, GB London EC4P 4HN, or Bank of America N.T. & S.A., Bleicherweg 15, CH 8022 Zurich, or BankAmerica International, 37-41 Broad Street, Church Street Station, New York, New York, 10004, U.S.A.

NOTICE

Withholding of 20 per cent of gross redemption proceeds of eny payment made within the United States is required under United States federal incoma tox law unless the United States paying agent hes the correct tax payer identification number (sociol security number or employer identification number) or an exemption certificate of the payee.

NOTICE

Bondholders ore hereby edvised that in accordance with cleuse 5 (e) of the Termo end Conditions of the Bonds the right to convert the Bonda into fully paid ordinory shores series B of tho Company ie retained up to end including the dete fixed for redemption. As at September 19, 1986 the Conversion Price was SEK 59.–, the fixed exchenge rate applicable thereto wos SEK 5.5960/US$, and tha Price of the free B shares on the Stockholm Stock Exchonge wee listed ot SKR 190-195.

Age Aktieboleg
By Bank of America Int'l S.A.
Luxembourg
Principal Paying Agent

October 30, 1986

MANAGEMENT: Small Business

EDITED BY CHRISTOPHER LORENZ

THE EUPHORIA which is tending to surround the currently fashionable phenomenon of management buy-outs tends to obscure the reality that getting to grips with running a newly independent company is an uncomfortable process.

As any seasoned venture capitalist knows, most buy-outs go through two distinct phases; and executive teams which fail to come to terms with the transition between them can easily run into trouble. After the first entrepreneurial thrill of cutting loose from the old owners comes the test of squeezing real growth from the business. It is at this point that management buy-outs succeed or fail.

Few companies highlight the nature of that challenge more tellingly than Melville Technology, a Letchworth-based maker of switches and electronic measuring instruments. For Melville was a pioneer of the buy-out craze when its four directors and a consortium of institutional backers paid £2.4m to dislodge the business six years ago from Britain's major, but terminally ill, machine tools group Alfred Herbert.

As described on this page two years later, on October 2 1982 Melville soon started to perform well below its investors' expectations. Indeed, its growth was so far below par that Melville fell prey last year to a so-called management buy-in — an event which ironically turned the company once again into a venture capital trend-setter.

Buy-ins occur when a team of outside managers — as opposed to the people running the business — mount a take-over bid and move in to assume executive responsibilities themselves. Melville succumbed to a £3.4m offer in spring 1985 from three former directors of Mowlem Technology (now Buehler International), the quality-control and testing group set up in 1981 as a diversification by the international construction company.

"It was something we thought about doing inside Mowlem, but it would have taken up too much time to be worthwhile in those circumstances," recalls John Poole, 55, former head of Mowlem Technology and now Melville's chairman.

Only a handful of buy-ins have so far taken place in the UK, but some experts believe that they will become an increasingly common method of putting fresh management into businesses that have somehow gone astray. "It's a sign of things to come; not just for management buy-outs that have not succeeded, but for early stage investments as well," says Tony Lorenz, managing director of Equity Capital for Industry, one of the nine venture capital groups that backed Melville second time round.



Top left, Fred Worth, finance director, John Poole, right, and Colin McCrosson: the new team which boosted profits

Why a buy-out is now a buy-in

William Dawkins reports on Melville Technology

So what went wrong? It is not as if the 64-year-old company (whose directors quietly resigned during and after the buy-in) had suddenly become a flop. On the contrary, its sales rose from £6m in 1983 to £7m in the year to last December, with trading profits up from £270,000 to £452,000 over the same period—a stately and predictable ride.

Part of the problem was to do with the way the original buy-out deal was structured, explains Malcolm Gloak, a local director of 3i, which is one of the two equity providers to invest in both the buy-out and the subsequent buy-in. "There was a mismatch in expectations," says Gloak. "The return that institutional investors needed for the size of investment they had put in was manifestly not being achieved, while the management did not do too badly even if the company did perform dully."

That hitch should be avoided by the terms of the latest deal, which gives Poole and his colleagues 15 per cent of the equity with the chance of rising to 35 per cent if they hit preordained profit targets, an increasingly common technique used by venture capitalists to keep managers on their toes.

Just a year after taking over, the new team unveiled a rise in the company's sales from £7m to £8m, with trading profits nearly doubled to £661,000, putting it well inside the backer's targets.

A member of the original post buy-out board, who wishes not to be named, points out that the new team is blessed with lower interest rates than its predecessor, a more competitive position in important US and West German markets thanks to exchange rate shifts and "hopefully a well thought-out financial package." He adds: "On their own admission, they bought a business which was in good shape, despite the long recession of the early 1980s and with a strong order book."

Until recently the trio have been kept extremely busy at Melville. "What we found was a company that was split into two divisions, standard instruments and custom engineering, which were allowed to run without co-operating in any way," says Colin McCrosson, former managing director of Mowlem Technology and now MD at Melville.

A big attraction for the buy-in team was the fact that the custom engineering division had just landed a £9m contract—nearly five times larger than the group's previous record job—to make metrology equipment for Hauni-Blohm, a Hamburg-based producer of precision grinding machinery. But there was one big problem. "There were no advance payments and no progress payments. We had to find £2m up front," says McCrosson.

Claims Poole: "A contract like that could have sunk the company as it was structured." His first move was to set up four profit centres, partly to improve budget controls but also to give the 330 staff better defined responsibilities. Three directors were imported from outside to provide the technical knowledge that the new buy-in team lacked and also to provide the commercial skills to run large contracts like the Hamburg job.

Lower down the scale, Melville's new owners held repeated meetings to urge line managers to be more independent. Poole's team had a suspicion that the company was full of potentially valuable research ideas that had been developed for one-off customers and never taken further.

"We thought that they would all fall on our necks with gratitude but, surprisingly, some of them were totally unnerved by being given so much freedom all of a sudden," admits McCrosson. The working capital needed to fund the crucial Hamburg project with all the product development it required was included in the total £5.5m the team raised last year. Even so, it leaves the group labouring under a £4m debt burden, as against shareholders' funds of just £1m.

All this means that Poole cannot even start to realise his original dream of building an Anglo-American technology group until Melville's balance sheet is cleared. That he hopes to do by floating the business on the stock market next spring, rather than diluting his already small stake still further by pulling in another round of venture capital.

Poole forecasts that in five years' time, he will have made two takeovers, creating a £100m annual turnover business that should be producing profits of £15m. Whether or not he can get anywhere near that target, however, depends on being able to pull off a flotation—and the outlook for the new issues market in Britain after the Big Bang is anybody's guess.

Seed capital

The crucial link for product creation

William Dawkins reports on a study into big company support for small firms

GOVERNMENTS and large companies should do more to channel seed capital and research contracts to small technology ventures if Europe is to compete successfully in the world markets of the 1990s.

That is the main theme of a paper published last week by David Connell, a consultant with accountants Deloitte Haskins and Sells' high technology group.

His study, presented at a European Commission symposium on the use of public R&D in Luxembourg last week, argues that more big companies might be encouraged to look outside their own organisations for new product ideas if governments took the lead by farming out a share of publicly funded research to small enterprises. Research links between large and small businesses are crucial to the process of turning new technological ideas into marketable products, maintains the paper.

The idea of banding small businesses a statutory slice of government R&D, as pioneered in the US, is not new. Neither is the principle that large companies can help themselves to be more innovative by taking a shot at venture capital.

Connell does, however, throw some new light on the conditions under which corporate venturing (the process by which big companies invest in small ones either directly or through funds) might best work. The conventional argument in favour of this much talked about but seldom practised technique is that since nearly a quarter of all innovations come from outside the companies that take them up, and since nearly half originate from small businesses, it makes sense for big businesses somehow to plug into little ones.

Yet, as is well known by pioneers of corporate venturing like Exxon, Monsanto or Olivetti, making those connections can be a tricky and sensitive process. All too easily, the presence of a large corporate shareholder can dampen the small partner's innovative spark.

The secret of not stifling the "complex and unstructured" climate in which innovation flourishes is not to get too close too soon, suggests Connell. Typically, small technology ventures start as research spin-offs, run part-time by academics who are keen to take on occasional one-off contracts but are not ready to get embroiled deeply in independent business life.

Such so-called "soft" businesses have the advantage of being relatively risk free for the founders, at least in the earliest stages. But later, they run up against "the inevitable lack of commercial management experience of most academic teams and the resulting difficulties in raising venture capital," he explains.

If successful, they then face the "enormous strain . . . on finance and management skills" that goes with expansion into a fully operational business. That, plus lack of international market muscle, means that "the growth potential of these companies as independent entities is often severely limited," says Connell, citing the fact that the three top computer-aided design companies to have spun out of Cambridge in the 1970s are now US-owned.

The transition from the loosely organised and entrepreneurial first phase of a research spin-off to the second stage where dramatic growth is possible can often take only three or four years, says Connell. "Yet the phases require completely different management skills and have very different financing requirements," he adds.

Buying into small ventures relatively late in their developments also provides a way round one of the biggest barriers to corporate venturing: fear of disaster. The middle managers who normally make big company investment decisions know that the occasional failure will tend to have more impact on their careers than a string of successes, argues Connell. They will clearly feel easier about investing in ventures that are old enough to have quantifiable potential.

Their first steps might consist of informal meetings or visits, leading to the award of R&D contracts to the smaller partners, culminating in an investment. Non-corporate investors should take equal care to proceed sensitively when handling research spin-offs, warns Connell. "The opportunities to generate the kind of rapid growth rate which venture capitalists look for may only come later," he says. "Attempts to force the business earlier into developing and marketing products . . . to meet these criteria can easily be counterproductive."

Bridging the gap between academic researchers and industrial corporations, available free from Deloitte Haskins and Sells High Technology Group, PO Box 207, 128, Queen Victoria St, London EC4P 4JX.

Barings to fund buy-outs

BARINGS, the London merchant bank, has become the latest in a long line of City institutions to jump onto the management buy-out bandwagon.

The group last week launched an equity capital subsidiary to finance management acquisitions and company expansion generally throughout Western Europe. At the helm is Otto van der Wyck, recruited from rivals Citicorp, where he was head of European venture capital investment.

The new group, Baring Capital Investors, will run in parallel with Baring Brothers Hambrecht and Quist, a joint venture set up nearly two years ago with the San Francisco-based risk investment firm to provide equity for start-up and early stage technology businesses.

Most of the large venture capital funds established this year have specialised in relatively mature companies—especially buy-outs — in marked contrast to 1984 when early stage enterprises were the fashionable specialisation for risk investors. "It shows that in Europe you can no longer afford to be so specialised in the type of company and the stage of development in which you invest," says van der Wyck.

He believes buy-out opportunities could become particularly plentiful in West Germany, where there are a large number of family-owned companies, many of which are believed to be facing succession problems. Buy-out activity there is very limited, however.

Baring Capital Investors has no fixed upper investment limit, but van der Wyck expects to be putting out on average between £1m and £2m per transaction. Most deals will be syndicated with other investors, as is becoming increasingly common in development capital.

Poor showing in manufacturing start-ups

MORE than 78,000 businesses were incorporated in England and Wales in the first seven months of this year, according to an internal study by Jordans, the company information group. In the same period last year just over 63,700 companies were formed, up from 59,000 in the comparable period of 1984, according to Jordans.

The statistics, dug out of the company's database by Dr Philip Holmes, managing director of Jordans Information Services, suggest that while the number of business start-ups is growing strongly, manufacturers are being left out in the cold.

Nearly half of the 1986 total was registered in Inner London, indicating, says Holmes, that a large number of them were formed for non-trading purposes. Of a separate sample of 15,200 genuine trading companies, a more 3 per cent were manufacturers, with 26 per cent in distribution and retailing, and the balance in consultancy and a range of other service industries.

Jordans is considering whether to repeat the exercise to provide a regular report on UK company formation activity. Details from Jordans Information Services, Jordans House, Brunswick Place, London N1 6EE.

Businesses for Sale

Looking for corporate partners?

Among its many merchant banking services, Singer & Friedlander has for many years operated a Register for companies who want to sell, merge with suitable partners, or dispose of subsidiaries that do not fit.

The Register is, of course, entirely confidential. Its fees, on a graduated scale, are payable only on completion of a successful transaction. Its use in no way obliges a client to appoint the Bank as financial adviser. Nor need any existing professional relationship be affected.

The Singer & Friedlander Company Register, historically a product of the Bank's extensive contacts and network of provincial offices, is perfectly placed to help you make the best possible match.

To make an appointment for us to visit you telephone: Glen Hughes or Peter Langdale, London, 01-623 3000; Roger Fairweather, Birmingham, 021-454 2247; Neil Crawford, Leeds, 0532-438073; John Brimacombe, Nottingham, 0602-419721; Ross Finnie, Glasgow, 041-221 9996; Everard Whiffen, Bristol, 0272-25351; Keith Haarhoff, Cambridge, 0223-66898; or write to: Panton Corbett, Singer & Friedlander Ltd, 21 New Street, Bishopsgate, London EC2M 4HR.

Singer & Friedlander
Part of the Britannia Arrow Group

Printing Company
FOR SALE

Applications are invited from any interested party who may wish to purchase a general purpose printing company with design and promotional capability. The company is based in the Midlands and is trading profitably and has the benefit of experienced management. The company could be of particular interest to other printing businesses who are seeking to expand their operations.
Annual Turnover is approximately £1m
Interested parties please reply through Box H1273 Financial Times, 10 Cannon St, London EC4P 4BY

BUSINESS FOR SALE
Agreed bid or 29.9% of Quoted Engineers
Families controlling profitable company with full quote have plan showing £1m pre-tax for 1987/8. An equity placing will dilute: therefore they seek a group to fund plan
Contact Box H1260, Financial Times 10 Cannon Street, London EC4P 4BY

DIVERCO
Sell Companies Nationwide
SELLERS and BUYERS
Contact in confidence:
DIVERCO LTD.
4 Bank Street,
Worcester WR1 2EW.
Tel: 0905 22303

FOR SALE
FULLY EQUIPPED
LIGHT CLOTHING FACTORY
as going concern
Either as production unit or with order book and stock. Modern purpose-built 30,000 sq ft building, currently rented but possibility of purchase. Fully staffed with excellent skilled workforce. Location East Midlands.
Principals only please to Box H1261, Financial Times 10 Cannon St, London EC4P 4BY

SMALL SPECIALIST
French Wine Importing Company
With unique brand name/image for sale with stocks
Long term export assistance available to buyer if required
For further details write: Box H1262, Financial Times 10 Cannon St, London EC4P 4BY

NORTHERN HOME COUNTIES AREA
Well established electronic manufacturing company which has its own complete facility, including well equipped fine limit sheet metal shop. Precision engineering department, electronic prototype, batch and production areas. The company is used to making good profits. Turnover in region of £600,000 net. Owners wish to retire shortly.
Write Box H1254, Financial Times, 10 Cannon St, London EC4P 4BY

Jason Metals (Peterhead) Limited
(in Receivership)
Scrap Metal Business For Sale
Dales Industrial Estate, Peterhead
5 acre Freehold Scrapyard with Vehicle Workshop (2,600 sq ft) Non Ferrous Store (4,125 sq ft), Office Block (2,500 sq ft) and 50 tonne Road Weighbridge (installed 1979). Excellent Plant and Machinery, including 1000 HP Fragmentising Plant (installed 1985). 500t Crusher/Shear. Scrap Cranes and Road Vehicle Fleet.
Evanton Industrial Estate, Evanton, Ross-shire
6 acre Freehold Scrapyard with Store, Portable Office Accommodation, 50 tonne Road Weighbridge, and access to rail network.
Copex 500t Crusher/Shear (New 1980). 24 tonne Skip Loader and 50 Skips. Poclain 60 CKD Scrap Crane.
Turnover in year to 31st December 1985 (14 months) was £3.3m.
For further details contact: Mrs I Anderson, Deloitte Haskins & Sells, 29 Abercromby Place, Edinburgh EH3 6UE Telephone No. 031-557 2111 or Telex 727575.
OFFERS SHOULD BE IN THE HANDS OF THE RECEIVERS BY 12 NOON, 14 OCTOBER 1986.
Deloitte Haskins+Sells
29 Abercromby Place, Edinburgh EH3 6UE

FOR SALE
PROFITABLE CHAIN OF RETAIL GROCERY STORES
29 LEASEHOLDS • 5 FREEHOLDS
TURNOVER £20,000,000 p.a.
ALL ENQUIRIES (PRINCIPALS ONLY) CONTACT N. C. HARVEY AT
GRANVILLE
Granville & Co. Limited, 8 Lovat Lane, London EC3R 8BP
Telephone 01-621 1212. Telex 8814884 GVILCO G. Fax 01-929 4954

By Order of the Joint Receivers
F. Stonsil, Esq., FCA & L. Homan, Esq., FCCA
re: Tasbian Ltd
Modern Fully Automated
ELECTRONIC ASSEMBLY WORKS
South West England
Computer Aid Design, Automatic Component Insertion, Flow Solder & In Circuit Test. A.C.I. Equipment by Universal & Amstar, Flow Solder & Clean by Hollis. Automatic Test Equipment by Zehntl. C.A.D. Equipment by Racal-Redac, Ferranti & Kodak.
Modern Leasehold Factory.
Further details from:
Hacker Young
St Alphage House,
2 Fore Street,
London EC2Y 5DH.
Tel: 01-588 3611
EDWARD SYMMONS & PARTNERS
56/62 Wilton Road,
London SW1V 1DH.
Tel: 01-834 8454

Melroses Limited
(IN RECEIVERSHIP)
The assets and undertaking of the above old established tea blending and packaging company are available for sale as a going concern.
The company holds a Royal Warrant, is profitable and has an annual turnover of approximately £3.5 million with major name customers both in the UK and overseas.
Major assets include the company's freehold premises in Edinburgh and tea packing machinery. The shareholding in a solvent subsidiary, Miles & Kitson Ltd, the London based tea brokers is also available for sale.
Enquiries to: A R B Jamieson, Price Waterhouse, 28 [illegible] Gardens, Edinburgh EH3 7DN. Telephone: 031-225 4242 Telex: 727434.
Price Waterhouse

GOLF COURSE S.E. LONDON
27 Holes and Clubhouse
Leasehold: 151 acres
Offers over £290,000
Joint Agents:
KNIGHT FRANK & RUTLEY
20 Hanover Square, London W1R 0AH - Tel: 01-629 8171

RADIANT GAS HEATER (BRITISH GAS APPROVED) MANUFACTURERS
Business and Assets for Sale as a Going Concern
Based in Kenmare, Co. Kerry
PIONEER RADIANT PRODUCTS LIMITED
(In Receivership)
manufactures radiant gas heaters
Modern Plant with an established market
Freehold building of 12,000 sq ft
A small skilled workforce is available
For further details, please contact:
Mr. Hugh Cooney, of COONEY CORRIGAN & CO.,
18 Merrion Square, Dublin 2.
Telephone: (01) 76 72 61 Telex: 90417

FOR SALE
CIVIL ENGINEERING CONTRACTOR
Turnover £2.5m. Good profit record. Extensive modern plant fleet. Good order book, local authority and private clients, large proportion of negotiated work
For further details apply: Box H1265, Financial Times 10 Cannon St, London EC4P 4BY

DIVERSIFICATION OR EXPANSION?
Have you assets with an unsatisfactory return. Equity available in vehicle contract hire company. Excellent management, no capital required. Substantial profitability
R. N. Hooper 0203 490517

FOR SALE
Small Litho Printing Company
With turnover of £175,000+, serviced by modern equipment and strong customer base. Lease on modern 7,000 sq ft building. Owner wishing to retire. Location Sussex.
Write Box H1266, Financial Times 10 Cannon St, London EC4P 4BY

BATHROOM DISTRIBUTORS/RETAILERS
SW LANCS - T/O £½M
Opportunity to acquire majority share in established company, for nominal cost. Successful purchaser must be able to demonstrate a proven track record of selling in the industry.
Write Box H1267, Financial Times 10 Cannon St, London EC4P 4BY

FREE NEWSPAPER
An established publisher offers for sale as a going concern an 80,000+ circulation, free newspaper in East Anglia.

SHIPYARD AND MARINA
On the Hamble River near Southampton. Over 85 berths and 52,500 ft of factory and stores. 6½ acres of land freehold. Offers invited for an early sale. Apply:
Austin & Wyatt Commercial
19 Kings Park Rd, Southampton
Tel: (0703) 334988

A GOING BUSINESS FOR SALE
Successful 25-year-old Paper Converting Firm in the U.S.A.
Has two modern manufacturing plants and an impressive roster of top drawer customers
Wants to be acquired or merged
Kindly send all pertinent information in absolute confidence
Write Box H1268, Financial Times 10 Cannon St, London EC4P 4BY

TRAVEL AGENCY
Palm Beach, Florida area.
Owner change of interest.
Immediate sale £20,000 down.
Tel: 305-747-4991
or Write Box H1270, Financial Times 10 Cannon St, London EC4P 4BY

FOR SALE
Dynamic Emerging Growth
COMPUTER TYPESETTING COMPANY
With pre-tax profits of 20% and strong balance sheet.
Please write in confidence to: Box H1269, Financial Times 10 Cannon St, London EC4P 4BY

FINANCIAL PUBLISHING
Small expanding City publishing and research business with good profits. It is a young, innovative organisation specialising in financial publications and surveys. 80% of turnover is from major City institutions.
Principals only write Box H1274 Financial Times 10 Cannon St, London EC4P 4BY

JOHN HOWARD GROUP PLC
The business and assets of a long-established international civil engineering and contracting company are available for sale as a going concern.
Principle features comprise:
* Turnover c. £50 million;
* Skilled workforce;
* Freehold plant depot, c. 14 acres;
* Modern leasehold offices.
For further details please contact the Joint Administrative Receiver:-
W. F. Ratford
Peat, Marwick, Mitchell & Co,
1 Puddle Dock, Blackfriars
London EC4V 3PD
Tel: 01-236 8000
Telex: 8811541
PEAT MARWICK

FOR SALE
LITHOPRINTING BUSINESS
CENTRAL LONDON
Details from: Shirley Jackson
BEGBIE NORTON AND PARTNERS
1 Raymond Buildings, Gray's Inn, London WC1R 5BM.
01-405 1219

FOR SALE
PATENT RIGHTS UK & USA OF DENTAL ANCHORING DEVICE
Details from:
Shirley Jackson
Liquidator Begbie Norton & Ptnrs
1 Raymond Buildings, Gray's Inn
London WC1R 5BM - 01-405 1219

Small Business
Importers/distributors of fine micro-precision machinery, measuring instruments and specialised small tools. Excellent potential for expansion with new range CNC equipment. Present owners due to retire.
Write Box H1272, Financial Times 10 Cannon St, London EC4P 4BY

Business Opportunities

READERS ARE RECOMMENDED TO TAKE APPROPRIATE PROFESSIONAL ADVICE BEFORE ENTERING INTO COMMITMENTS

BUSINESS BUYERS INTERNATIONAL
We specialise in leveraged buyouts exclusively representing buyers
We will:
* Search * Appraise
* Structure * Negotiate
* Assist in financing * Close
We have obtained financing for 90% of our clients' acquisitions
9 Campus Drive, Parsippany
NJ 07054, USA
Tel: (201) 285-1711
Telex: 325749 BBI USA

COMMERCIAL & INDUSTRIAL MORTGAGES AVAILABLE
TEL: 01-546 8857
Finance Brokers:
Maybury & Co, 17 Castle Street
Kingston upon Thames
Surrey KT1 1ST

SALE
European Investment-AG-Luxembourg—to sell. DM 12.000,00. Telex-Nr: 853543 d Fimex Deutschland.

SWISS FRANC LOANS
Take advantage of current exchange rates. Swiss Franc Loan Commitments arranged against acceptable financial instruments
Telephone USA 804-253-1600
for specific procedure

ATTENTION
MANUFACTURERS FOR U.S. MARKET
Set up your plant on a duty free industrial park on the Mexico/US boarder. *Information:*
Mexican Boarder Development Ltd
7140 Camlnito Fepino
La Jolla, CA 92037, USA

FASHION HOUSES AND CLOTH MANUFACTURERS
Interested to buy a licence for unique futuristic fashion collections which will enhance your productivity worldwide are welcome to view and discuss further
Write Box F6819, Financial Times 10 Cannon St, London EC4P 4BY

BUSINESS CAPITAL
Enquiries considered from UK/EEC businesses seeking expansion capital or acquisition financing in excess of £100,000
Contact:
INTERFUND FINANCIAL GROUP
Highley Manor, Crawley Lane
Balcombe, Sussex RH17 6LA
Telephone: 0444 811711
Telex: 295141 (TX LINO O)
Attn-MBX 0149-10446

INVESTOR/FINANCE REQUIRED
For company managing distinguished international classical musicians and investing in highly valuable appreciating musical instruments. *Please contact initially:*
HAZLEMS
Chartered Accountants 29 Daring St
London W1R 9AA

CREATIVE COMPANY
with spare space for growth in Soho, seeks to form association with printer plus repro Promio Company to form full services group to utilise their sales promotion agency clients.
Write Box F6820, Financial Times 10 Cannon St, London EC4P 4BY

FAX UPDATE
WHOLESALE SPECIALS OF PHASE THREE FAX MACHINES
Also Portable Fax Machines
Lowest prices in Europe
Tel: (0243) 860662

BUSINESS FOR SALE
If you want to buy or invest in a business
VENTURE CAPITAL REPORT
Provides c 500 specific opportunities each year
For free sample and full details:
VCR, 20 Baldwin St, Bristol 1
Tel: 0272 272250

NURSING HOME EAST MIDLANDS
REGISTERED 40
with turnover £330,000 plus.
Long established with good local reputation.
Large grounds with room for SHELTERED ACCOMMODATION DEVELOPMENT
Completion of sale required by December
£700,000
For further details write: Box H1252, Financial Times 10 Cannon St, London EC4P 4BY

WEST KENT
Best-known ladies' fashion house. Superb period premises. Gross turnover 85/86 £90,000, expanding rapidly. Gross profit 45% plus. New 15 year lease £8,500 pa. fully fitted. Offers in the region of £59,500 for lease, goodwill & f&f.
PARSONS (0732) 461211

ELECTRICAL ENGINEERING
For Sale Manufacturer of a well-established range of Electrical Industrial Equipment.
Turnover £2.5m. Profitable.
Located in the south-east.
Write Box H1264, Financial Times 10 Cannon St, London EC4P 4BY

Business Services

Offshore & UK Companies
Incorporation and management in UK, Isle of Man, Channel Islands, Turks, Panama, Liberia, Gibraltar, Hong Kong, etc. Domiciliary and nominee services.
SELECT CORPORATE SERVICES LTD.
3 Mount Pleasant, Douglas, Isle of Man
Tel: Douglas (0624) 23718
Telex: 628554 SELECT G
London representative:
2-5 Old Bond St.,
London W1
Tel: 01-493 4244
Telex: 28247 SCSLDN G
SCS

LIMITED COMPANIES
FORMED BY EXPERTS
FOR £121 INCLUSIVE
READY MADE £121
COMPANY SEARCHES
EXPRESS CO. REGISTRATIONS LTD
Epworth House
25-35 City Road, London EC1
01-628 5434/5, 7361, 9936

Wall Street Area, New York City
THE AFFORDABLE NYC ADDRESS
Here's the solution!
The Identity Package.
• Telephone answering • Mail handling • Telex and Facsimile
• Access to furnished offices, conference rooms, secretarial support
ALSO: *Corporate Package;* Full Time, Full Service. *Associate Package;* Part Time, Flexible Service.
THE OFFICE ALTERNATIVE
Wall St. Area
26 Broadway, Suite 400, NY, NY 10004 USA.
Contact Susan Soss, Director
Tel: (USA) 212-837-7700 or 212-509-8890
TELEX: MESCENT 6716868

DIRECT MAIL LISTS & SERVICES—100s of ready-built lists immediately available. Suppliers to leading UK companies. Free Catalogue. Marketscan, Freepost, Chichester, Sussex. Tel. 0243 786711.

BUSINESS AND ASSETS of solvent and insolvent companies for sale. Contact: "Business and Assets (RLC)." 01-637 3036.

LIMITED COMPANIES — COMPANY FORMATION AND SEARCHES. Fast Service! Credit Cards! 01-247 5666.

Conferences

CORPORATE TURNAROUND STRATEGIES
A 2-DAY CONFERENCE
3/4 November 1986
HOW TO RECOGNISE TROUBLE AND MANAGE CHANGE FOR PROFIT
For details contact:
Jane Lewis
BUSINESS RESEARCH INTERNATIONAL
57/61 Mortimer Street
London W1N 7TD - Tel: 01-637 4383
Telex: 8956007 IIR LON G

Plant and Machinery

SALE OF SECOND HAND FORK LIFT TRUCKS. All leading makes in stock including container stuffers, electric, diesel or gas. All ready for immediate work. Inspection invited. Export enquiries welcomed. Price list sent on request. No reasonable offer refused. Birmingham Fork Lift Truck Ltd., 4-8 Hams Road, Saltley, Birmingham. 021-327 5944/5. Telex: 338723.

Franchising

OUTSTANDING BUSINESS OPPORTUNITY WITH UK PUBLIC COMPANY
Appleton Holdings plc is an established and successful British based marketing incentive company — the leader in its field in the holiday and leisure industry.
Our unique concept provides FREE ACCOMMODATION for up to two weeks in a luxury hotel and is a major attraction for companies requiring customer and staff incentives.
Appleton Holdings now intend to extend their successful UK operation and are poised for a major expansion throughout Europe and Scandinavia. We are therefore inviting applications from potential franchisees in all these countries, excluding the UK, on an exclusive basis. All franchisees are given thorough and extensive training plus full marketing support.
If you feel that you would like to become part of this proven and successful industry and share in our major expansion plans, please write for full details to:
The International Franchise Manager
APPLETON HOLDINGS PLC
13 Carlisle Road, London NW9 0HD - Telephone: 01-200 8888

Office Equipment

REDUNDANT EXECUTIVE FURNITURE
20 SETS OF ROSEWOOD FURNITURE
Boardroom Tables - Reception Furniture - Fire Resistant Cabinets
Tel: 01-549 9339
Write Box H1268, Financial Times 10 Cannon St, London EC4P 4BY

THE ULTIMATE EXECUTIVE TOY
Billiard table which converts to boardroom table, 9ft x 4ft 6in
Complete with all snooker, billiard and pool accessories
For further information please ring (01) 626 6833 during business hours

PRECISION ENGINEERING AND LIGHT FABRICATIONS
LIMITED COMPANY FOR SALE
Established Business
Greater Manchester Area
Modern freehold property, fully equipped CNC machines, in-house paintplant, press shop with 150-ton hard tool capacity
Turnover £1.3m — Profit £95k.
PRICE £575,000
Write Box H1263, Financial Times 10 Cannon St, London EC4P 4BY

International

UNIQUE
INTERNATIONAL INVESTMENT OPPORTUNITY
Here is a rare opportunity for investment, by purchase, in a dynamic Australian Engineering business. Our client's company specialises in the manufacture of flameproof vehicles and machines for use in underground coal mines, and other industries where an explosion is always a risk.
This growing business has the rights to manufacture the power tram for which high sales potential in the international market remains untapped. Sales for the 1987 financial year are expected to top three million Australian dollars. Orders presently on hand approach this level.
Make the most out of the undervalued Australian dollar, **Act now** on this unique international investment opportunity.
All enquiries should be directed to:
Mr John Simmons
JOHN SIMMONS AND PARTNERS,
CHARTERED ACCOUNTANTS,
Suite 1902, 44 Market Street,
Sydney, Australia. 2000. Phone: (02) 29 6134.

TECHNOLOGY

US patents row over visor which gives a clear advantage

Peter Marsh looks at an advanced technique for improving a welder's view of the job

A TRANSATLANTIC patents tussle is disrupting efforts to promote a novel method of protecting welders from eye damage.

The arguments concern a new form of high-technology helmet for welders which uses liquid crystals—best known for their use in displays for watches and calculators—to block out bright flashes of light.

Two companies, Hornell Elektrooptik of Gagnef, Sweden, and Gor-Vue of Cleveland, Ohio, sell the devices in the US, which is seen as a large market for the novel form of shields. The concerns are involved in a court case brought as a result of a claim by the US company that Hornell is infringing its patent.

Mr Ake Hornell, managing director of the Swedish company, said he planned to contest the claim. He was, however, trying to reach an out of court settlement with Gor-Vue. The case is due to come to trial at a federal court in Cleveland, Ohio, later this year.

A third company, Kansai of Tokyo, also makes helmets which use liquid crystals. The company products, of which are sold in the UK by Northamptonshire-based Sureweld, is not involved in the US patent action.

The results of the tussle will be watched with interest by E. Merck of West Germany and Switzerland's Hoffman La Roche, two of the biggest producers of liquid crystals which are seeking new outlets for their materials.

Behind the altercation over patents lies an intriguing technique which, so advocates of the helmets claim, can greatly increase the productivity of welding—used as a basic tool in countless industries all over the world.

Welders generally shield their eyes with helmets containing pieces of fogged glass. These items, fashioned from lightweight materials such as glass fibre and made worldwide at a rate of millions a year, cost only a few pounds and are generally thrown away after a few weeks' use.

Standard practice among welders is for the worker to keep his visor over his eyes only when the welding torch is creating an arc, which is when it is touching the piece of metal to be welded.

While positioning the torch, when the worker needs to see as clearly as possible, he tilts the shield above his head. The result is that the welder must continually shuffle his visor between different positions.

With the high-tech helmet, the worker can keep the shield in position all the time, increasing his work rate. The visor contains not one sheet of fogged glass but two sections of clear glass with a thin layer of liquid crystals trapped, sandwich-like, between.

Liquid crystals have peculiar optical properties, such that electrical signals change their ability to transmit light.

In the high-tech helmet, photosensors triggered by arc flashes from the welding gun send electric signals which change the optical behaviour of the crystals. Rather than let light through, the crystals block transmission, automatically fogging the shield.

The new helmets, developed over the past five years, have been slow to win acceptance. The welding industry has mixed feelings over whether the devices are worthwhile. It is argued that welders have got so used to tipping their helmets up and down that any productivity savings are negligible.

A more potent factor is the devices' cost. At £100-£150, they are five to ten times more expensive than standard low-tech welding protectors. On most factory floors, welders treat their eye shields roughly and, so industry observers argue, such expensive hardware would soon become damaged.

Safety is another aspect. There have been worries that the automatic fogging triggered by arcing may not work quickly enough. Both Hornell and Gor-Vue say such fears are groundless. They say fogging occurs within about a hundredth of a second of a flash of light.

Despite the difficulties, Hornell sells 20,000 of its shields a year, worth about £2m. Big car companies such as General Motors and Volvo are among its customers. About 80 per cent of the products are exported, with the US a large market.

The Swedish company has placed a £60,000 contract with a small UK company, Ketek, based in Paignton, Devon, to develop an automatic process to fabricate the glass-liquid crystal sandwiches used in the product.

Mr Mack Gordon, president of Gor-Vue, said he sells "several thousand" of the eye protection devices a year, all in the US, the only country for which he has patent protection.

Conventional eye protection for welders: Liquid crystal visors cost more but can enhance job efficiency.

3D: Vision of big rewards in a different dimension

FOR ALL the progress made in film and television technology, one major development is still awaited—a simple and effective system for three dimensional (3D) movies. The challenge has defied ingenious minds for at least 80 years and every system so far introduced has either relied on special viewing spectacles or elaborate projection screens.

A small group of media people in London are hoping to change all that. Joining the long train of inventors who believe that at last they have solved the problem. Last week they demonstrated the system, which aims to produce 3D television pictures that can be viewed on any domestic television set without adaptation or any type of viewing contrivance. It was as simple to use as inserting a videocassette into a VCR and playing it back on a standard television set.

The commercial potential for such a system is incalculable. Any television production company controlling the patents could reap not only rich pickings from programme production but would have TV advertisers falling over each other to make their products literally stand out from the rest.

At present, it is not possible to say that this breakthrough has been successfully accomplished. But on the evidence, it would be premature to dismiss this latest system as just another failure. At still a relatively crude stage of development, it yields television pictures with a suspicion of depth, promises improvement on this experience, and may be capable of overcoming a currently inherent fault—unsteadiness in the picture.

The system relies upon the time-honoured principle in stereoscopy of recording left and right eye images of the same scene—which remains still the most favoured method of achieving really good stereo pictures. The major drawback with stereoscopic "pairs," however, is that they must be viewed in a way that prevents the left eye from seeing the right eye image and vice versa.

Numerous ideas have been adopted to satisfy this requirement. The most familiar, in cinemas, uses polarising filters over the two synchronised film projectors and identical filters for viewing spectacles—the plane of polarisation of left and right eye images set at right angles to block each other out.

Variations of this principle have ranged from the old-fashioned anaglyph—in which the film images are respectively red and green, the spectacles likewise—to elaborate shutter mechanisms synchronised to similar shutters on the projectors. The anaglyph system lends itself to colour television transmission by simply employing superimposed red and green images and red/green viewing spectacles for the audience; in Britain, television viewers have been treated to such a demonstration by TVS, one of the regional Independent Television companies.

Another solution to this left eye/right eye problem is to use spectacles with liquid crystal filters, similar to the LCDs (liquid crystal displays) used in watches. These appear transparent or opaque, depending on the application of an electrical charge, thus providing a basis for electronic switching. In Japan, JVC has used this idea to produce a 3D version of its video disc player.

The new British system abandons any attempt to obscure left and right eye images alternately. The viewer sees successive left/right images with both eyes simultaneously. As might be expected, at normal framing rates (25 frames per second) the result is an oscillating movement as the parallax of the subject continually switches from left to right and back again. But by increasing the framing rate to 50 frames per second or more, this oscillation smooths out as the brain begins to fuse the images.

The result has some semblance of a three-dimensional effect because the brain is being presented with the necessary left and right eye views, albeit to both eyes at the same time. There is in fact much more to the idea than that, especially in the configuration of the cameras which originally take the film. The system needs more development. Nevertheless, considering the limited resources this private group has used to get so far, it must be taken seriously, unlike many past attempts.

In the words of one stereoscopic expert — Mr Charles Smith—many 3D patents are "absolute rubbish." Mr Smith's work on stereoscopic movies spans a period of 40 years—beginning with another of Britain's 3D pioneers, Mr Raymond Spottiswoode. In 1951 at the Festival of Britain, Spottiswoode revived interest in 3D movies with a number of films using polarised viewing spectacles—later taken up by Hollywood in the mid-1950s when there was a brief boom in 3D cinema.

Unexpectedly, the USSR has been trying very hard to solve the 3D riddle. Its most promising solution uses a glass or plastic lenticular screen (vertical corrugations of "lenses" on to which are projected the stereoscopic pair). Each strip separates a sliver of the image from the next so that the viewer's left eye—by reason of its parallax displacement—does not see the same image strips as the right eye. Mr Smith believes this principle has potential in the cinema, especially when the lenticular screen is replaced by a holographic screen. This would not function like a hologram, but merely uses the facility of holographic film to be made to behave like an elaborate optical system, refracting the projected images selectively into left and right eyes.

Holography itself offers some promise, but it is extremely difficult to use with moving pictures and reasonable screen sizes—even though, again, the USSR has developed a working system.

Unnecessary anyway if the British system really can achieve satisfactory results. This would revolutionise not only the entertainment business, but uses of the moving picture in education and training. Mr Charles Smith exemplifies this well in pointing out the need for stereoscopy as an audio-visual aid in teaching medicine: "how would you like to be operated on by a one-eyed surgeon?", he asks.

FILM AND VIDEO

by John Chittock

TV advertisers would fall over each other in an effort to make products 'stand out'

British expertise in welding spreads into American industry

AN UNUSUAL deal involving a US research association and US metals and engineering companies is spreading British expertise in welding to US industry.

The Welding Institute, an industry-supported research association based in Cambridge, is earning £750,000 a year as a result of a link with the Edison Welding Institute, a 21-month-old research body in Columbus, Ohio.

The UK concern, which has 570 employees and an annual budget of £14m, is one of three founding members of the Columbus-based organisation. The others are Ohio State University and Battelle, an engineering research institute, also in Columbus.

The Edison organisation, set up with $4.1m from the state of Ohio, is an "attempt to emulate" the UK Welding Institute, according to Dr David Dickinson, director of research at the US body. He says the Cambridge organisation is the "world leader" in welding technology.

While Battelle turned over to the new Columbus organisation its staff of welding experts, the part played by the UK concern in the new venture was to agree to direct research results — for an annual fee—to the Edison institute. After this, the Columbus body channels the results to the 100 or so US companies which used to receive information directly from the UK.

Mr Bevan Braithwaite, managing director of the UK Welding Institute, says this arrangement is highly satisfactory in that it strengthens links with the US but saves his staff the time and expense of too many transatlantic aircraft journeys.

The Cambridge organisation has built a worldwide reputation for studies in areas such as friction welding, a relatively new form of welding in which the components to be joined are heated by rotating them rapidly together. The institute has also pioneered work in areas such as weld inspection using X-rays or ultrasound, and in fatigue testing.

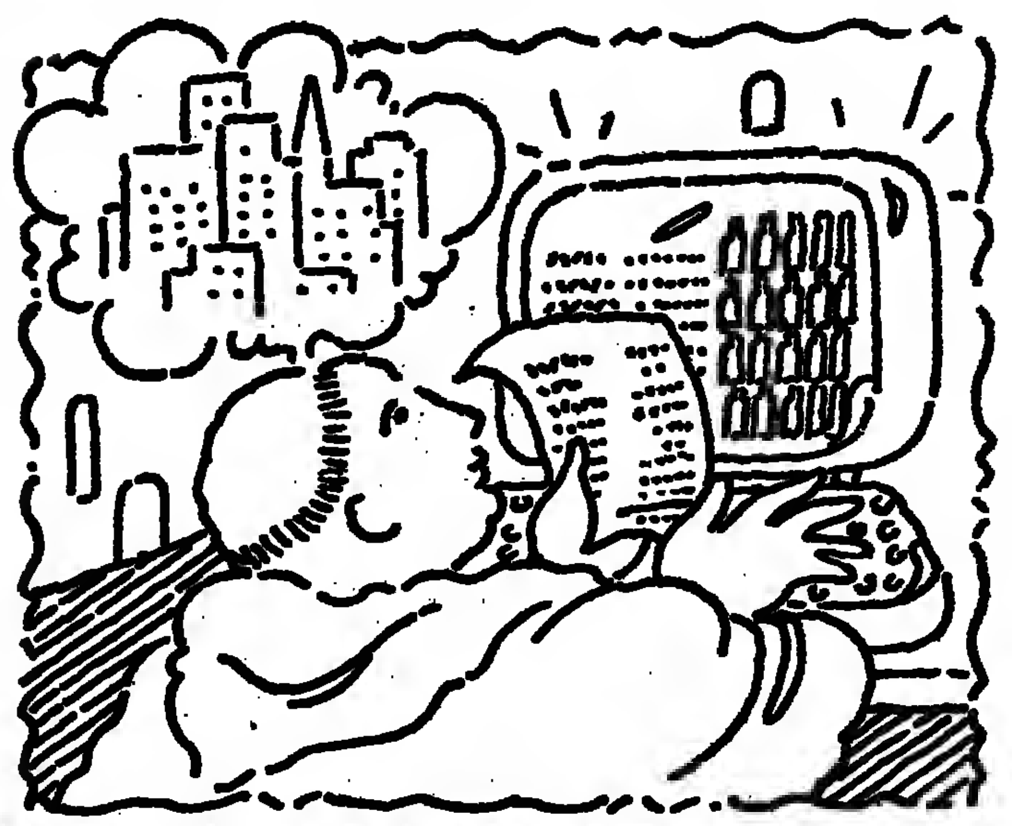
Most of the budget for the organisation comes from subscriptions from companies which use its research results. UK members include household names in industry such as Vickers, JCB, NEI, BP, ICI, British Telecom, GEC and British Rail. US companies which obtain data from the UK via the Columbus link include Mobil, Standard Oil, Cabot, General Motors, General Electric, General Dynamics and Union Oil.

Among other innovations, the UK Welding Institute has pioneered applications of "video newspapers." Three times a year companies with a subscription receive a 20-minute video providing highlights of research programmes.

BREWING

A monk in business

By Tim Dickson in Brussels



POINTING proudly to his new Nixdorf minicomputer or browsing through the company's latest monthly management accounts, he could be any small businessman. Even the blue overall conforms to type.

Yet Père Bruno, *administrateur délégé* of the Orval Brewery in southern Belgium, is no ordinary managing director.

Four years ago this middle-aged monk gave up a life of quiet contemplation to combine his ecclesiastical duties and obligations with running what is one of five Trappist breweries in the country. Today a fully fledged limited company, the Orval brewery was established in the early 1930s to help fund repairs of the abbey but it has since gained a national (not to say international) reputation for its ale. It employs 21 people, all but Père Bruno laymen, and last year chalked up sales of around £1½m.

The daunting personal implications of such a radical new calling represent a poignant human drama in its own right. But from a communal point of view the most interesting challenge for Père Bruno in his new role as businessman monk has been to make money in a competitive market place while retaining the dignity and decorum of a monastic order (not least one traditionally associated with silence).

"It's e delicate balance," he observes candidly. "Somebody came along recently and offered me enough money to build a brewery three times as big as our present capacity so that we could step up our sales to the US."

He adds quickly and without a hint of regret: "It would, of course, have been inconceivable to accept."

Unlike most so-called "monastic" beers in Belgium, which are manufactured by wholly commercial breweries merely using the monastery's name to market their product, the Orval ale is brewed on the premises in an operation owned and controlled by monks. (In this respect only Chimay, Rochefort, Westmalle and Vleteren can make a similar claim of authenticity).

Père Bruno is responsible for day-to-day management but as far as long-term planning and development are concerned he is answerable to what might best be described as a non-executive board consisting of one or two professional outsiders but dominated by the Abbot and his followers.

Understandably, the latter are determined that the Orval brewery should not stray from its original purpose of preserving the fabric of their beautiful home, part of which dates back to the 12th century. Hence, the tendency to give venture capitalists short shrift.

Père Bruno remains faithful to this ideal—he continues to play a part in abbey life and one day will return fully to the "fold"—but what fascinates is his sure touch of business problems and market realities.

Last year, for example, he had to explain to his "board" that for the first time in its history Orval would be declaring a loss on its beer production, a development which owed everything to a change of accounting practice and nothing to the underlying trading situation which remained healthy. Monks have loftier pursuits than studying the latest Belgian accounting standards but despite their ignorance (and thus possible susceptibility to alarm) Père Bruno managed to convince them that all was well. "They were not concerned, so long as sales were up on the previous 12 months," he recalls.

Installing a new computerised accounting system is his latest worldly preoccupation and a sign that Orval is no different from any other business in having to keep up with advances in technology. The gleaming Nixdorf machine is still unplugged but Père Bruno is busy devising the requirements of a custom-designed software program which the German company's engineers will soon complete.

Père Bruno's financial nous was spotted as long ago as 1958 when he was put in charge of the "economic side" of monastic life—an experience which presumably made him a natural candidate for his present job. Today he talks like someone who knows at first hand the wide number of legal and administrative responsibilities of running a company of any size and in other circumstances might be a valuable recruit of any political lobbyist.

Orval's marketing, however, is consciously low key and the brewery relies heavily on word (not to say taste) of mouth and the efforts of its 40 or so distributors to keep up the sales momentum. Orval is a fairly upmarket beer—at 5.2 per cent proof it is not exceptionally strong—but the premium price has to cover high transport costs to the centres of population and high financing charges resulting from the relatively long fermenting period.

Around 90 per cent of output is sold and consumed in Belgium or Luxembourg—with the other 10 per cent exported to France, Italy, Switzerland and the US. However, efforts to tempt British drinkers have ended in ignominious failure.

While the brewery remains an integral part of the religious foundation at Orval, Père Bruno and his fellow monks acknowledge the wider social responsibility they have assumed as a result of the steady growth of the enterprise. "We are by far the biggest employer in the village," he points out, "we could not, for example, close the brewery without thinking of the consequences of making 20 people unemployed."

Such a possibility seems extremely remote at a time when demand for Trappist ales, according to the Confederation of Belgian Brewers, is higher than ever. But if the Orval Brewery looks like continuing for many years to come, Père Bruno will not necessarily remain at the helm. "I would certainly like more time to read, study and pray," he reflects, "but I will leave it for others to decide when I move on."

Which FT Diary will you choose for 1987?

With over 100 pages of meticulously researched information – presented in a choice of 4 superb finishes – the Financial Times Diary must be your choice for 1987.

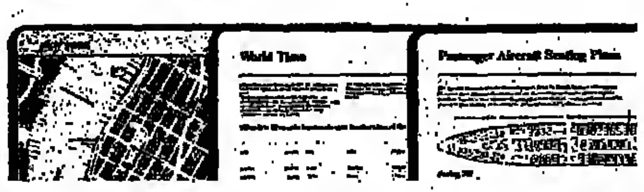
An indispensable business tool.

Apart from making day-to-day planning simpler and more efficient, the Financial Times Desk Diary is indispensable as a permanently ready reference source. In fact, it's like having an international business data base on hand whenever you need it.

As you would expect from a highly respected newspaper like the Financial Times, information has been meticulously researched with everything easy to find and clearly laid out.

Whether you need key statistical data, business vocabulary in three languages or to know which airlines fly to a particular city, the diary will tell you. It can help you plan your trip to the smallest detail with useful information such as examples of daily living expenses and local holidays in over 75 countries.

The contents that make it more than a diary.



FT Indices Graphs
Graphs showing the FT Ordinary Share Index. FT-Actuaries All-Share Index and the British Government All-Stocks Index.

Country Surveys
Factual information on 80 countries saves you tedious searches elsewhere and increases your effectiveness. Details include visa requirements, currency regulations, customs allowances, business hours, approximate daily living expenses and useful addresses.

City Centre Maps
Fifteen easy-to-read maps of the business districts of the world's financial centres.

World Atlas
Updated forty-eight page, full colour World Atlas.

Planning and Information
Four page monthly expenses record. Two-page staff holidays chart. Weekly columned analysis chart for scheduling and planning over one year. Three pages of weights and measures, international clothing sizes and metric conversions. Four-page 1988 engagement section. A two-page 1987 year planner. Calendars for 1986, 1987, 1988 and 1989. Two-page planner for main meetings. Double Century Calendar running from 1901 to the year 2110. Graph charts and logarithmic scale.

Indexed Address/Telephone Directory
Slotting neatly into the inside back cover is a separate stitched and bound personal thumb-indexed address/telephone directory, finished in matt silver. It includes international dialling codes and space to store personal information.

Diary *10¼ x 8½ (265mm x 216mm)*

International Travel Section
Twenty-six pages of helpful information covering airports, transport, car hire, world hotels, world time, passenger aircraft seating plans and major airlines servicing the world. There are also details of month by month climatic conditions in 80 international cities and vocabulary section translating business terms from and into French and German.

Diary Section
Diary Section runs from 1st December 1986 to 31st January 1988 and shows seven days at a glance, international public holidays, number of days passed and number of days left in the year, together with tax and calendar week numbers, 1987 calendar week numbers, 1987 calendar at the foot of each page. Public holidays for 119 countries.

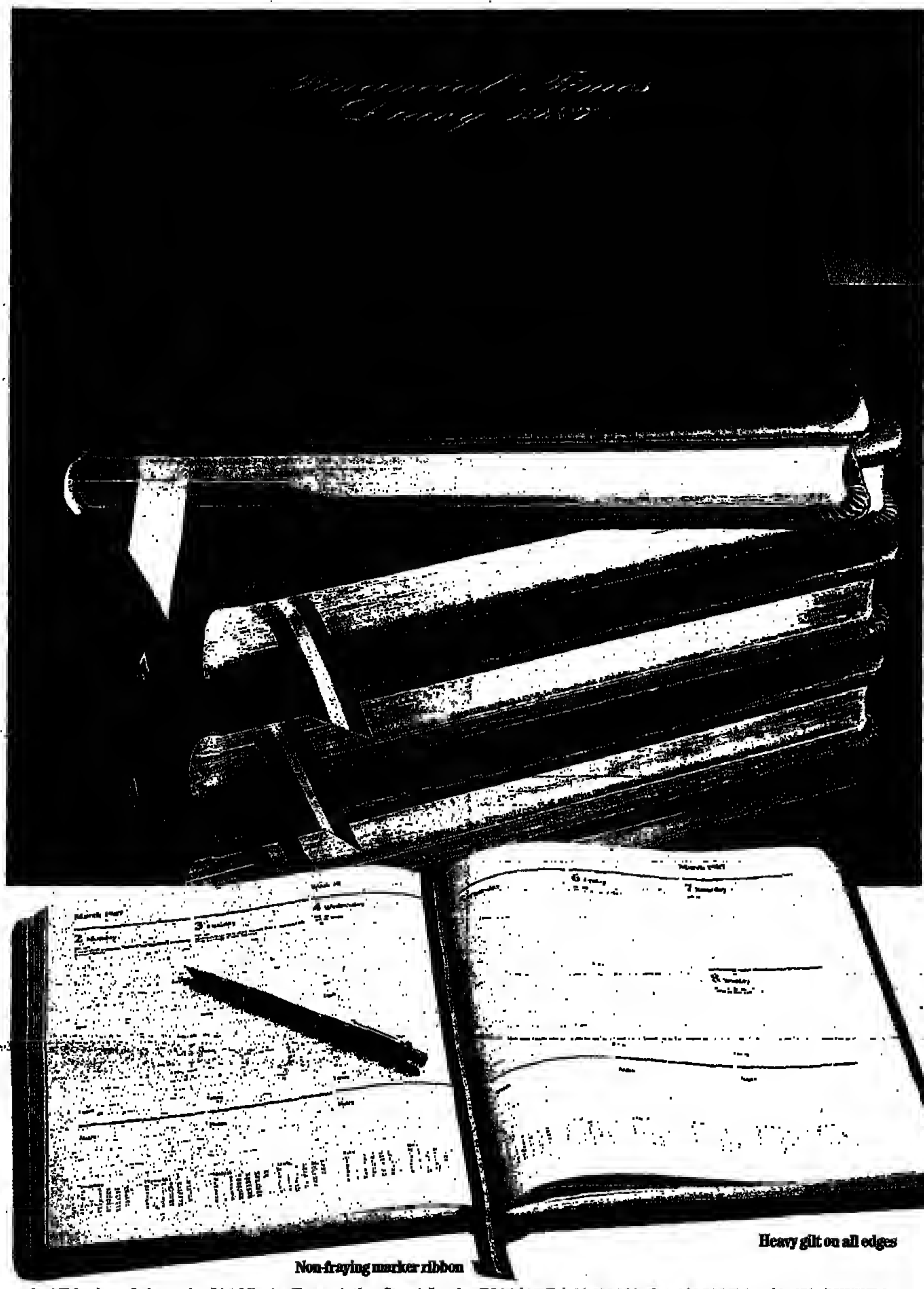
Invaluable every day of the year.
Each page has plenty of room for planning your day and keeping notes. There are also sections that you'll find useful when working out your expenses, monitoring company performance or showing staff holidays.

There's no more efficient way to plan ahead – because there's no more comprehensive diary than the Financial Times Desk Diary.

The Diary of the Year – in the binding of your choice

To match individual tastes and budgets, there's a selection of cover bindings for your FT Desk Diary. You can choose from Rich Black Leather, Burgundy Bonded Leather or Black Leathercloth.

For those who want the ultimate in quality and craftsmanship there's the Chairman's Set, handmade from the finest hides, dyed to a rich brown. Produced as a limited edition, The Chairman's Set includes a matching pocket diary and comes in its own presentation box with a numbered certificate. And, of course, all our diaries can be personalised in gold with your name or initials.



Heavy gilt on all edges

Non-fraying marker ribbon

To: FT Business Information Ltd, Minster House, Arthur Street, London EC4R 9AX Tel: 01-623 1211 Ext. 280/281 Telex: 8814734 BUSPUBG

ORDER FORM

Please send me the following items from the prestigious Financial Times Diary Range: (complete quantity and value columns below).

I understand that if I am not totally satisfied with my purchase(s), I may return it within 28 days for a full no questions asked refund. (Not applicable on gold blocked items).

SPECIAL OFFER TO READERS OF THE FT. Order your 1987 FT Diaries within 14 days and we will gold block your initials FREE!

Name (Mr/Mrs/Miss/Ms) (PLEASE PRINT) ______

Company ______

Position ______

Address ______

Post Code ______ Telephone: ______ Signed ______

FOR OFFICE USE ONLY			TYPE OF DIARY	UNITED KINGDOM		OVERSEAS		VALUE
				QUANTITY	Price (inc. p&p) £ p	QUANTITY	Price (inc. p&p) £ p	£ p
CS	0506	07171	Chairman's Set (Desk and Pocket Diary)		82.00		87.50	
DL	0451	07006	Desk Diary, black leather		44.96		48.60	
DB	0475	07018	Desk Diary, burgundy bonded leather		29.65		33.30	
DC	0499	07020	Desk Diary, black leathercloth		16.90		20.50	
PL	0457	07031	Pocket Diary, black leather		9.17		9.25	
PP	2141	07274	FT Pink Pocket Diary, black cover, pink pages, new design		8.92		9.00	
PB	0481	07043	Pocket Diary, burgundy bonded leather		8.67		8.75	
PC	0561	07263	Pocket Diary black leathercloth		8.17		8.25	
PWL	0463	07055	Pocket Diary and black leather Wallet		21.68		21.85	
PWB	0487	07067	Pocket Diary and burgundy leather Wallet		19.83		20.00	
	0883	07092	GOLD BLOCKING (optional extra): Initials and Surname per product		3.00		3.00	
	0883	07109	GOLD BLOCKING (optional extra): Initials only per product		1.50		1.50	

Sub Total (excl. of VAT)	
ADD 15% VAT Unless you are outside Great Britain and Northern Ireland.	
TOTAL AMOUNT	

Please Note: The Chairman's Set consists of two items therefore blocking charge is double.
Give details of Gold Blocking on the despatch labels supplied.
Blocking for Pocket Diary/Wallet will be on diary unless you state otherwise.

How to pay

Most important: Payment must accompany order, ***except on orders over £120.00 (excluding VAT) from U.K. registered Companies, which will be invoiced.***
Payment should be drawn only on a Sterling/US Dollar account made payable to 'FT Business Information Ltd'. Customers outside the UK paying by Bank Transfer must ensure that the FT Diary Department receives FULL payment for the order by instructing their bank to debit them with all relevant charges.

Details of our Bank: Midland Bank Limited, 5 Threadneedle Street, London EC2R 8BD.
Account No. 50957615. Sorting Code 40-07-02.

Tick method of payment. If the billing address differs from the above, please notify us.

Cheque ☐ Money Order ☐ Bankers Draft ☐ ☐ ☐ ☐ ☐

Card Number ☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐ Expiry Date: ______

Cardholder's signature ______

The Financial Times Diary is also available at Ryman and other selected stores

Other Gifts from the Financial Times

The City Collection – a range of luxury leather goods for business and for travel.

☐ Please tick for brochure

FT Factmaster – A specially developed portable personal organisation/time management system.

☐ Please tick for brochure

Bulk discounts of up to 25% are available. Please telephone (01) 623-1211 for details.

The FT Pocket Diary

An instant and invaluable source of reference, our 1987 Pocket Diary has been expanded with sixteen new pages. The added value includes information profiles of an extra 26 major international business centres, comprehensive lists of hotels, restaurants, theatres, conference centres and airport details for London and the UK.

In short – more information than ever before.

All Financial Times Diaries can be personalised with gold blocking (names and/or initials).

The FT Wallet

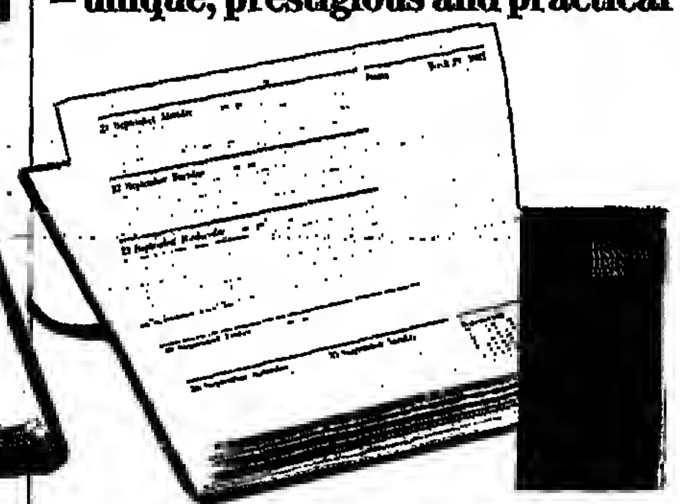
It's slim and elegant, yet with plenty of room for banknotes, papers and your FT Pocket Diary. This wallet is superbly crafted in black or burgundy leather with silk lining and gilt corners. And there's also a handy aide – memoire notepad.

NEW FOR 1987

The Financial Times

Pink Pocket Diary

– unique, prestigious and practical



An original and innovative page design that opens up much more space for your own notes and comments, a new size, plus pages the colour of the Financial Times – these are the things that make the new FT Pink Pocket Diary different from any other. And, of course, you can see the week at a glance on every page spread, with calendars for the current and following months.

For a diary of its size it carries an incredible amount of information – including a fold-out map of London's City and West End, a mileage chart for Britain and Europe, a World Holiday Chart, profiles of 26 International Business Centres plus a wealth of invaluable listings and information tables you will use every day.

Bound in an entirely new material that looks and feels like high quality soft leather – and with its unmistakable FT pink pages – this promises to be the most distinctive and sought-after pocket diary of the year.

The ideal personalised present...

Receiving a diary with your name on it always makes the right impression – and it costs very little extra. You can choose to have initials, or name and initials on the cover in high quality, long-lasting gold blocking.

It's this kind of personal touch that makes the Financial Times Diary an even more acceptable gift.

... and the perfect corporate gift.

Your own special edition of the Financial Times Diary will ensure that your clients have the opportunity to think of your company – every working day of the year. Because apart from having your name or logo gold blocked on the cover, we can also include a special eight-page section to promote your company. Which makes the Diary a practical, welcome gift benefitting your clients – and your organisation all year round. **Discounts of up to 25% on bulk orders.**

By placing your bulk order well in advance you will be entitled to discounts of up to 25%. To qualify you must order 25 or more items.

Contact us now for more information.

FINANCIAL TIMES Diaries

Diary Department, FT Business Information Ltd Minster House, Arthur Street, London EC4R 9AX
Telephone: 01-623 1211 Telex: 8814734 BUSPUBG Reg No. 980896 (Reg in England)

APPOINTMENTS

Royal Bank of Scotland major changes

THE ROYAL BANK OF SCOTLAND GROUP is making major changes in its management structure from October 1. The new structure recognises recent and continuing developments, converting the Group to a broadly-based financial services organisation offering a full range of clearing bank services through The Royal Bank of Scotland, merchant banking and investment through Charterhouse, insurance underwriting through Royal Bank of Scotland Insurance Co and other specialist financial services through such subsidiaries as St Margaret's Trust, RoyScot Factoring and RB Leasing.

From October 1 a separate group executive will be charged with promoting the future growth of the group as a whole, including in particular, optimum allocation of resources from time to time among the various group subsidiaries.

Mr C. M. Winter is confirmed as group chief executive and Mr H. E. Farley, currently chief general manager of The Royal Bank of Scotland (the clearing bank) will be appointed deputy group chief executive. Mr W. R. McKim, assistant chief general manager, group services, of The Royal Bank of Scotland will be appointed managing director of a reactivated Royal Bank Group Services. Mr Winter, Mr Ferley and Mr McKim will remain executive directors of The Royal Bank of Scotland Group but, from October 1, they will cease to be executive directors of The Royal Bank of Scotland, although remaining non-executive members of that board.

From October 1, Mr R. M. Maiden, assistant chief general manager, UK banking of The Royal Bank of Scotland becomes managing director of the clearing bank. (He too, will retain his position on The Royal Bank of Scotland group board). Mr A. Ellis, general manager, UK banking, Manchester region will be appointed deputy managing director of The Royal Bank of Scotland based in London and Mr L. S. McGill, senior general manager, international, will be appointed executive director, international. Mr A. G. Pollard, assistant chief general manager, international has retired.

★

Mr Brian Robinson has joined LONDON REGIONAL TRANSPORT in the new post of corporate marketing director. Mr Robinson has joined LRT from Unilever, where he had many years of international experience in marketing and management both in head office and operational roles.

★

CHARLES BARKER LYONS has appointed two directors, Mrs Marilyn Andrews and Mrs Gloriana Marks de Chabris from October 1. Mrs Andrews is an associate director in the consumer marketing division, with responsibility for account groups working in the fmcg and home interest fields. Mrs Marks de Chabris joined Charles Barker in 1984, as finance and administration manager and was promoted to associate director in 1985.

★

Mr J. A. Hay has been appointed marketing director of BONAR COLE POLYMERS. He joined the company in 1982 as marketing manager.

★

UPDATE COMPUTERS has made Mr Ian D. A. Kennedy its commercial director. He was marketing director of Ortho-Cilag Pharmaceutical.

★

PRECEPT DEVELOPMENT AND PROJECT CONTROL has appointed Mr David R. Burton as managing director.

★

Mr Bob Kennings, a regional marketing manager with National Westminster Bank has has been seconded to the WESTMINSTER CHAMBER OF COMMERCE as project director for Westminster Business 2000 — a research-based study of the potential business community in the City of Westminster in the yeer 2000.

★

LLOYDS EXPORT AND PROJECT FINANCE, a subsidiary of Lloyds Merchant Bank, has appointed Mr Gordon Morley a senior assistant director. Mr Morley will be responsible for the development of the bank's export finance business.

★

KESTREL SERVICES has appointed Mr Robert Wallace to the newly created position of marketing director. Mr Wallace has extensive marketing experience, including appointments with Procter and Gamble and companies within the Dun and Bradstreet and Initial groups.

★

Mr George Flynn has resigned as a director of ATKINS BROTHERS (HOSIERY) and its subsidiaries in order to pursue other business interests. Mr Bill Dawson, chairman and chief executive of Atkins, will continue as chairman of Atkins Industrial Holdings (the holding company for the subsidiary companies in Atkins' electronics equipment division) and will become chairman of each of its subsidiary companies. In order to allow Mr Dawson more time to devote to the electronic equipment division, Mr Ernest Owen, deputy chairman of Atkins, will become managing director of the group's textile division.

★

FABERGE has appointed Wella's retail division director, Mr Roger Meadows, as its UK managing director.

★

AIAX (UK), a member of the Aiax Group has appointed Mr Anthony (Tony) Gilliam as technical director. For the past 17 years he has been employed by Haden Young, where as refrigeration consultant he was a principal in the central engineering unit.

★

Mr Alan Roberts has joined BUSINESS PRESS INTERNATIONAL as deputy managing director of its sub division, Consumer Industries Press. Mr Roberts was previously general manager of the UK operations for American-owned publishing company Horizon House-Microsol Inc.

★

Mr Joel Jervis is promoted to customer services director of UNITED BUSINESS SYSTEMS.

★

NORSK HYDRO FERTILIZERS has appointed Mr George Henshilwood to the new post of director of sales operations. In addition to his current responsibilities for wholesale and retail trade activities he will be responsible for marketing, distribution and industrial sales.

★

Mr Anthony Habgood joins the board of TOOTAL GROUP as executive director on October 1. Formerly with the Boston Consulting Group, Mr Habgood has in recent months been closely involved in the formulation of Tootal Group's growth strategy.

★

Mr T. K. (Tom) Cooper is appointed to the board of the BRITISH BLOODSTOCK AGENCY as an executive director from October 1. *He is chairman of the group's Irish subsidiary companies.*

★

Mr P. F. O'Connor has been appointed company secretary of S & W BERISFORD from October 1.

★

Mr Alby Vigar has been appointed chairman and group chief executive of PLATON INTERNATIONAL. He joined the group in 1966 and became group chief executive in 1984. Mr Vigar succeeds the group's founder, Mr Gilbert Platon, who will remain on the board as president.

★

On September 29, Tyndall's investment department moved from Bristol to the City, and will be known as the investment division of AETNA LIFE INSURANCE CO. Mr Stephen Bamford has been appointed group investment director. He has been investment director of County Bank's unit trust department for the past 10 years. Mr Jonathan Bradley has resigned as investment director as he wishes to remain in Bristol for personal reasons.

★

Mr D. C. Newton is joining the board of NASH INDUSTRIES on October 1.

★

Mr John L. Richards has been appointed a director of HENRY BOOT SOUTHERN responsible for the company's construction activities in Birmingham and the Midlands. He was regional manager.

★

KENYONS BAKERS AND CATERERS has appointed the following directors: Mr Aldo Pasquali, Mr Roberto Cimelli, and Mr Alastair Bayne, as representatives of Continental Savouries, following its acquisition of 35 per cent of the share capital of Kenyons. Mr J. N. Prest becomes non-executive chairman, and Mr G. Davis, managing director. Mr R. S. Prest and Mr J. Clarke have resigned. Mr Alastair C. M. Bayne has also joined the board of Continental Savouries.

★

Mr Roger Bexon has joined the board of J. H. FENNER (HOLDINGS) as a non-executive director. He is chairman of Laporte Industries (Holdings), a director of BICC and BP Canada and was deputy chairman of British Petroleum Co, until his retirement in June.

★

Mr Patrick Cogan has been appointed a director of THOMAS BORTHWICK & SONS. His executive responsibilities cover the UK meat division and related product development.

★

Mr R. W. H. Dasent, general manager, supplies, refinery operations and technical services, and Mr S. P. H. Howorth, general manager sales, have been appointed executive directors of PETROFINA (UK).

★

GKN KELLER has appointed two divisional directors for its UK piling and ground improvement operation based at Coventry Mr Roy King becomes the director of piling and construction and Mr Eric Murphy is now director of ground engineering.

★

At THE BRITISH METALLURGICAL PLANT CONSTRUCTORS' ASSOCIATION Mr R. T. Kingdom continues as chairman and Mr F. E. Hart has become vice-chairman.

★

Dr Arabella Woodrow, buying manager for the Co-operative Wholesale Society's wines and spirits operation has been appointed a director of the WINE DEVELOPMENT BOARD.

★

SIMON ENGINEERING has appointed Mr John Beecroft as managing director of Henry Simon of Stockport. He was previously director and general manager.

★

CONTINENTAL INSURANCE has made two changes in its international operations. Mr Peter J. Ilias has been appointed president and executive director of The Continental Insurance Co (Europe) and a regional vice president of Continental's international department. Mr Bruce Hayden has been appointed vice president and manager of Continental's international department, based in New York.

London bids for EEC trade mark office

By Fiona Thompson

THE GOVERNMENT yesterday stepped up its campaign to have the European Community Trade Mark Office located in the UK by designating St Katherine-by-the-Tower in London as the proposed site.

The facilities and position of the St Katherine development were excellent, said Mr Geoffrey Pattie, Minister for Industry and Information Technology, announcing the decision.

So certain of the site's attractiveness was the Government that Mr Pattie played down its one disadvantage – cost.

"Obviously it's going to be an expensive contender. The Government expects to provide a considerable degree of support to that price."

The minister refused to say what level of subsidy the Government would provide, but stressed: "We must make certain that the total proposal is irresistible."

St Katherine was chosen after detailed study of four possible developments. The one other inner-London site, Cockspur Street, was ruled out due to time constraints. Two outer-London sites, Harrow and Croydon, were felt to be too far away for the professionals involved in the industry.

"We wanted to choose the site that is most likely to succeed," said Mr Pattie, admitting that quite a battle lies ahead. With the exception of Denmark, every Community member has lodged a bid to house the trade mark office. The field is led by London, Munich, Strasbourg and The Hague.

Mr Pattie said he was confident that the "obvious qualities and advantages" of the St Katherine development would enable the UK to secure the office.

The newly constructed building would have 8700 square metres of floor space, Heathrow and Gatwick airports were less than one hours journey from the site, and Stolport, the short take-off and landing airport due to open next year, is just 10 minutes away.

Even more important was its proximity to trade mark and patent agents. There are more than 1000 fully qualified trade mark practitioners in London, many located close to the UK Patent and Trade Marks Office in Holborn. Also 50 barristers specialising in trade mark law are based in London.

Mr Pattie said he was confident that St Katherine would be on the short-list of three or four sites to go to the Council of Ministers by Easter next year. A final decision on the chosen site should be taken by the end of 1987.

Certainly no one is denying the need for the office. Companies throughout the Community will be saved the trouble and expense of working with 12 different national systems for registering trade marks.

Trafalgar to construct £200m Thames bridge

BY JOAN GRAY, CONSTRUCTION CORRESPONDENT

TRAFALGAR HOUSE, the industrial, property and construction group, has won the competition to build a new crossing over the river Thames at Dartford, east of London, alongside the existing, and often congested, tunnel.

The project, for a £200m suspension bridge, will be the first major infrastructure project in Britain to be entirely privately financed.

Under the deal the bridge, the longest cable-stayed suspension bridge in Europe will be designed, constructed, financed and operated by Trafalgar House's Dartford River Crossing Company. The company will also take over ownership of the existing twin Dartford road tunnels, which form a key link in the M25 orbital motorway around London.

The decision to allow Trafalgar House to go ahead with a privately financed scheme is a major reversal of policy.

It follows a series of Government refusals to sanction private funding for public projects in the UK, most notably its refusal in 1984 to allow Tarmac to fund and build a seven-mile stretch of road in the West Midlands.

The Government said then that the higher cost of raising funds in the private sector outweighed the economic benefits of accelerating

The Dartford Tunnel, about 50km east of London, will have a companion suspension bridge to relieve traffic congestion

the road-building programme. Yesterday's decision appears to leave the way open for other major private sector projects.

"For the first time, right at the start of a major new project, we have involved the private sector fully, not only in designing the scheme but also in financing it," Mr John Moore, Transport Secretary, said yesterday.

Trafalgar House is already looking at the possibility of funding a £100m-plus bridge across the River Severn, in the west of England, where the existing bridge it built more than 20 years ago is overloaded. Other privately-funded projects include a £5bn barrage to use the Severn's tidal power.

The Dartford Bridge will be funded by what Mr Eric Parker, Trafalgar House Group chief executive, described as a "unique package" put together by Kleinwort Benson, Cazenove and Bank of America.

The £200m package – £86m to build the bridge with the remainder for debt servicing, comprises loan stock placed with institutional investors and a bank facility led by Bank of America. The company will also take over the running of existing overcrowded tunnels.

The investment will be repaid from tolls on the bridge and tunnels to be recouped over a maximum of 20 years. The bridge and two tunnels will revert to the Government at no cost as soon as the costs of the project have been recovered, which could take as little as 14 years. Tolls will be increased only in line with inflation.

The decision to choose the Trafalgar House scheme came as some surprise since contractor John Mowlem, which had first proposed a £240m privately-financed tunnel under the Thames, was widely regarded as the leading contender for the project among the eight promoters which put forward competing proposals.

Row over portrayal of Thatcher

By Raymond Snoddy

THE BBC last night denied allegations that the scriptwriter of a three-hour drama on the Falklands conflict had been asked to make political changes in the script affecting the portrayal of Mrs Margaret Thatcher, the Prime Minister.

The scriptwriter, Mr Ian Curteis, claims that Mr Peter Goodchild, BBC Head of Plays, visited him at his home in Gloucestershire on July 7 and asked for changes of a political nature.

In a letter to Mr Alasdair Milne, the BBC director general, Mr Curteis claimed that Mr Goodchild had suggested cutting out aspects of Mrs Thatcher's character that showed her as womanly and caring "while leaving in those aspects that projected her as hard and domineering."

The correspondence and allegations have been published in the current issue of The Free Nation, the newspaper of the right-wing Freedom Association.

Mr Curteis, author of Churchill and the Generals and Suez 1956, said after the visit he had a letter from Mr Goodchild saying that "certain suggestions" made would have to be addressed.

Knights clash over the coal strike

BY MAURICE SAMUELSON

SIR IAN MACGREGOR, whose controversial book about the year-long UK miners' strike goes on sale this week, was the "wrong man" to head the British coal industry, according to Sir Norman Siddall, his immediate predecessor as chairman of the National Coal Board (NCB).

His remark is among a chorus of angry comments from politicians, former coal industry officials and civil servants at some of the statement's in the MacGregor book, large extracts of which have been serialised in the press before its publication.

The book is called "The Enemies Within," and contains sweeping and often highly personalised criticisms of Mr Peter Walker, Secretary for Energy, of the Civil Service and of senior officials at the NCB.

Sir Norman, who in the early stages of the strike had defended Sir Ian against attacks by Mr Arthur Scargill, the miners' leader, last night accused him of adopting "a god-like" attitude towards the problems of British industry and of leaving a legacy of difficult new problems for Sir Robert Haslam, the present British Coal chairman.

Mr Ned Smith, who left his job as NCB industrial relations director in the midst of the strike, took issue with what he regards as Sir Ian's self-image as "the strong man" of the strike.

"In its early stages, I had had to put a yard of steel up his back to prevent him from relaxing the pit closure programme and offering an improved wages offer, said Mr Smith. He also described as "too daft for words," Sir Ian's claims to have had exclusive foreknowledge of the union's detailed strike plans and to have decided to precipitate it at the best time for the Coal Board.

According to Mr Smith, the remit both from Sir Ian and from the Government was to make sure a strike did not occur. Sir Ian, he added, was "re-writing history" when voicing criticism of the previous management policies at the Coal Board and claiming that he had opened a positive, new chapter.

On becoming chairman, Sir Ian

Sir Ian MacGregor: 'God-like attitude to industry'

had spoken warmly of the NCB's management and of its policies, including those on industrial relations, and had pledged that they would continue.

Senior civil servants, whom Sir Ian namelessly numbers among the "enemies within," are understood to be angry at his complaints against themselves and nonplussed by his suggestions that Mr Peter Walker, Energy Secretary, did not fully support him and that he had greater backing from the Prime Minister and the Chancellor of the Exchequer.

Mr Ian Gillis, former Head of Information at the Energy Department, said that the attacks on Mr Walker were "completely misguided" and that the attacks on the late Mr Geoffrey Kirk, former information chief at the NCB, were "unforgiveable."

His "one abiding memory" was that Mr Walker "never ever" criticised the Coal Board chairman's conduct despite considerable anxieties at various stages of the strike. He always appeared loyal to Sir Ian and never indulged in backbiting.

This is despite the fact that civil servants were frequently muddled about what Sir Ian was up to and suspected that, contrary to his latest claims, "lacked a very clear idea or strategy of where he was going."

The Enemies Within, The Story of the Miners' Strike 1984-5, by Ian MacGregor with Rodney Tyler, published by Collins, £15.

UK NEWS

Extel set to challenge satellite racing deal

BY RAYMOND SNODDY

EXCHANGE TELEGRAPH (Extel) is considering asking the Office of Fair Trading to look at a satellite racing deal announced yesterday between the Racecourse Association (RCA) and Satellite Information Services (SIS).

SIS was chosen in preference to Extel for a contract to supply televised horse racing live by satellite to betting offices all over Britain. SIS, a restructured version of Satellite Racing Development, an original applicant for the contract, has signed heads of agreement for a five-year contract with a five-year extension option.

The service, which will provide live racing from 59 race courses in Britain, is expected to go live early next year. General Sir Peter Leng, chairman of the RCA said yesterday: "We have concluded an arrangement which protects the long-term interests of the racing and betting industries in general and betting in particular."

Satellite Racing Development was originally set up as a consortium of the big four bookmaking organisations, Mecca, Ladbroke, William Hill and Coral.

The RCA decided that a satellite racing service should be seen to be independent of the betting industry. A chairman of SIS is to be appointed who will be independent of the racing and betting industries and non-bookmaking interests will have a majority on the board.

General Leng said that the four bookmaking organisations would have a total of 45 per cent held through their parent companies. Forty per cent of shares would be held by investors from outside the racing and betting industries and the RCA would have 10 per cent and the Horserace Totalisator Board, 5 per cent.

General Leng said the deal would certainly guarantee the RCA at least £10m over the next three years.

SIS's capital requirements will be about £50m.

Parker Pen aims for £10m pre-tax after beating all targets

BY CHRISTOPHER PARKES, CONSUMER INDUSTRIES EDITOR

PARKER PEN overshot all its targets in its first half year. The private, UK-based company made pre-tax profits of £3.54m for the six months to the end of August. These were more than double the £1.52m forecast in the plan on which last February's $100m management buy-out was based.

Sales were £53.3m, 6 per cent higher than the target of £52.3m, despite the weakness of the dollar and currencies in other key markets. In the preceding 12 months, under its former US owners, the company lost £300,000 on turnover of £115m. Mr Jacques Margry, chief executive, said yesterday that he was aiming at sales of £124m and pre-tax profits of £10m for the full year.

Rapid implementation of the new management's plans, including redundancies, inventory reductions, borrowing cuts and the launch of several new products had played their part in the advance, Mr Margry said.

Annual costs in the US had been reduced by about $20m, he said, and the company was gaining ground in the profitable up-market pen business there. Sales had risen 12 per cent. US operations produced a profit of $600,000 in the first half, compared with the loss of more than $5m recorded in the whole of 1985. Parker's past failings in the US stemmed largely from its move down-market which damaged its image as a manufacturer of quality writing instruments.

Oceania also produced a first-half profit, compared with a small loss in 1985, and the company has recently moved to strengthen its position in the Far East with the appointment of a distributor in Taiwan.

Latin America exceeded expectations, according to Mr Margry. Sales in both Brazil and Argentina rose by more than 50 per cent. The company was also receiving dividends. "We have had about £1m so far from Latin America, compared with about £250,000 for the whole of the last 20 years," he said.

Mr Margry is now working on the second stage of the company's development and concentrating on new product development and "succession planning." "Most of us will not be working here in five years' time," he said of the existing senior management. "We have some strengths beneath us.. we have to identify them and bring them on."

Fines for shares deception

BY RAYMOND HUGHES, LAW COURTS CORRESPONDENT

THREE COMPANY directors who made multiple applications for shares in the British Telecom flotation in November 1984, were ordered to pay fines and costs totalling £16,000 at Bow Street magistrates court, London yesterday.

Stephen Conway, Roy Conway and Michael Collins, directors of companies in the Portland Group, were fined £750 each on each of six summonses of attempting to obtain BT shares by deception. Stephen Conway was fined a further £500 on each of two summonses of attempting to obtain commission in respect of share applications. They had pleaded guilty.

Mr Julian Bevan, prosecuting, said the three men had made about 1,500 applications and would have made a minimum profit of over £95,000 on those that were successful. He said that the summonses the men faced were no more than specimens.

Mr Bevan acknowledged that "stagging" – making multiple applications for shares on new issues had been commonplace and gone unchecked for years.

Print union ready for new Wapping ballot

BY PHILIP BASSETT, LABOUR EDITOR

LEADERS of the general print union Sogat '82 are insisting that all ex-News International (NI) print-workers in the union receive a ballot paper in an effort to conduct properly a vote on the company's "final" offer and to avoid any further legal action against the union by its members.

Ms Brenda Dean, Sogat '82 general secretary, yesterday sent out to London branch secretaries a new letter attempting to ensure that the ballot on the company's offer is conducted as properly as possible.

The circular is the union leadership's first formal response to the freezing at the end of last week by NI of its £58m offer after claiming it had "little or no confidence" that the union's ballot would be properly conducted.

The offer was made by NI in an effort to end the dispute over its decision early this year to switch production of three of its national newspapers from central London to a high-technology plant at Wapping, in London's docklands. The move led to the loss of some 6,000 general printing jobs.

The union circular has also been prompted by a string of inquiries to the Sogat head office yesterday by ex-NI workers asking about the ballot. If the ballot result is in favour of the offer, Sogat's leaders will, despite its freezing by the company, immediately ask NI to honour the commitment the union says the company has made in proposing the offer.

The latest union letter to branches makes it clear that despite the company's action, Sogat is not prepared to cancel the ballot and hold a rerun. Copies of the letter are also being sent to Mr Norman Willis, TUC general secretary, though Sogat leaders do not believe that the TUC will respond in any circumstances to NI's suggestion that it should monitor the ballot to try to ensure its propriety.

Instead, the Sogat leadership's circular takes fresh steps to do that itself. After concern in the leadership over suggestions from some London branch officials that some members will not receive ballot papers, Ms Dean says: "I must again remind you that all members who came out in January must be given a ballot paper, and they must have that ballot paper in good time to allow them to vote."

Ms Dean refers directly to the legal action brought against the national union by Sogat's London machine branch during the last ballot on the company'e previous "final" offer.

She says that this time, the union is conducting the ballot in the way requested by its branches, and says that "therefore it is essential that the law is not brought against any section of the union for failure to meet the right of the members to receive a ballot paper."

Sogat leaders are highly sceptical about claims from some London branch officials that members are likely to reject the offer. The union's leadership is critical of the campaign for rejection being run by London branch leaders, some of whom had earlier privately made it clear to the leadership that virtually any change at all in the company's original £50m offer would be likely to be accepted. There were even suggestions that simply putting out the original offer again might lead this time to its acceptance.

UK NEWS

Kinnock wins a major victory over Militant

BY MICHAEL CASSELL, POLITICAL CORRESPONDENT

THE EXPULSIONS from the Labour Party of eight members of the Trotskyite Militant Tendency – including Mr Derek Hatton, the deputy leader of Liverpool City Council – were yesterday overwhelmingly endorsed by delegates in Blackpool.

The scale of the vote – 6.1m in favour of expulsion and only 325,000 against – represents a major personal victory for Mr Neil Kinnock, the Labour leader, in his long-running campaign to rid the party of Militant supporters.

Mr Kinnock said he was surprised but delighted by the strength of support given to the leadership, which was boosted by a last-minute change of heart within the National Union of Mineworkers.

Told that Mr Hatton was insisting he remained deputy leader in Liverpool, Mr Kinnock said: "I suppose he thinks he is still in the Labour Party, but there are plenty of people around who think they are Julius Ceasar."

Mr Hatton and his seven supporters refused to put their case for continuing membership to a private session of delegates and walked out of the conference centre. He said he was "not prepared to give credibility to farce."

Mr Hatton claimed he had been subjected to an avalanche of lies and abuse and it was not possible for those expelled to state their case in the five minutes they had each been allotted. He said the people of Liverpool would decide his fate and that of his colleagues. He intended to go back to his desk.

Today, in an attempt to close a loophole which Mr Hatton could use to remain in his post, the conference is expected to back a leadership move to change a rulebook ambiguity which apparently permits people who are not members of the Labour Party to belong to local Labour groups.

After yesterday's walkout, Mr Larry Whitty, Labour's general secretary, said that the suspended Labour group on Liverpool City Council would now be officially reconvened by the party's national executive committee and that there would be "a vacant position to fill."

He claimed that Mr Hatton and his supporters had totally undermined their own position by failing to take up the opportunity to speak, which they had asked for. He added: "We have broken the inner ring of Militant control over a large part of the Liverpool party, and that was the objective."

Labour delegates yesterday also approved the formation of a national constitution committee which will act as the final court of appeal in any future cases brought against party members under a catch-all allegation of "conduct prejudicial to the party."

The new procedures which are partially intended to avoid a repeat of the time-consuming and near-riotous scenes which took place at Labour Party headquarters during the Liverpool Militant hearings will take effect in the new year when the 11 strong committee is elected.

Mr Whitty said the rule changes would protect the party and individual members from abuse. They represented "a great step forward"

THE latest public opinion poll conducted by Mori shows that Labour starts its annual conference with a slender two-point lead over the Conservatives. The figures, in yesterday's London Standard, are Labour 37 per cent, Conservatives 35 per cent, and Liberal Social Democratic Party Alliance 26 per cent. This indicated that the Alliance vote has held up quite well but might not be representative of the current position. The field work for the poll was done between September 18 and 24, after the SDP conference but before the effect could be felt of Mr David Steel's defeat over nuclear defence policy at the Liberal conference.

Peter Riddell reports on the debate raging over future policy

Left-wing disarray puts rivals in charge

Labour Party conference in Blackpool

THE LABOUR left is in disarray. The general absence of public controversy which so pleases the leadership has produced an intense debate among the multitude of left-wing organisations.

Broad groups of soft and hard left are engaged in mutual denunciation – leaving, as they both concede, the centre/right leadership firmly in charge.

For instance the Labour Herald newspaper, edited by leaders of London's hard left, Mr Ted Knight and Mr John McDonnell, has attacked "soft-left careerists." It says the left's traditional journal, Tribune, has now shifted so far to the right that it can no longer be considered as part of the socialist left. Instead, it is just a house journal for the party leadership.

On the other side, Labour Activist, the newsletter of the soft left Labour Co-ordinating Committee, has attacked the "self-styled hard left" for "virtually evacuating the area of serious policymaking."

There are, of course, some people who do not recognise such a division. Mr Tony Benn has claimed that the press has been presenting such a picture of the left as "a deliberate lie to try and demoralise people on the left; more than it is the establishment trying to demoralise the Labour Party as a whole."

The origins of the split go back to the high-water mark of the left's influence after the constitutional changes of 1980–1981 when, at the 1981 conference, Mr Benn narrowly failed to be elected deputy leader. This was the result of the deliberate abstention by a number of MPs, including Mr Neil Kinnock, who was vilified as a "Judas". There was then a process of regrouping reflected in the emergence in parliament of the Campaign Group, separate from the Tribune Group.

After the 1983 general election, there was a further realignment in the left as people who had been involved in the earlier battles to back the leadership. This reflected both a reaction to the shock of the election defeat, and a response to the arrival of the apparently left-wing Mr Kinnock as leader. The arguments were sharpened during the emotional struggle of the miners' strike, when the confrontational tactics of the hard left urged by Mr Benn and Mr Dennis Skinner appeared to be leading nowhere.

There was also the parallel battle in curbing authority spending rate capping and the question of whether councils should behave illegally, which led Mr Ken Livingstone, the leader of the Greater London Council, to split from his former hard-left allies.

Moreover, people who had been associated with the hard left on the national executive committee (NEC) such as Mr Michael Meacher, Mr Tom Sawyer, of the public employees union Nupe and Mr David Blunkett, the leader of Sheffield City Council, began to distance themselves from what they saw as the divisive approach of Mr Benn and Mr Skinner.

The result was to leave Mr Kinnock, already assured of almost total support within the shadow Cabinet, with a comfortable majority on the NEC as well. This has allowed him to carry through his "modernisation of party policy and presentation."

But where does all this leave the left? The hard left are now profoundly suspicious of the leadership. At their meetings this week, the words Kinnock and traitor are spat out almost synonomously. Much of their energy is directed at internal organisational issues, such as black sections and expulsions.

Mr Benn has said that the manifesto produced by the current leadership "will be much weaker than the situation requires and much less than the party as a whole would wish for."

Yet, at the same time, Mr Benn talks about "more committed socialists now than there have ever been." Rejecting the view that the hard left has been "marginalised," he says: "What I am conscious of, however, is that, if I go to a justice for mineworkers meeting or an anti-apartheid rally, or a campaign group meeting, or a march to Wapping, you are aware of a very strong labour movement, which has been highly educated by its own experiences."

But, as Mr Benn's Labour critics point out, most of these campaigns have not been notably successful.

The soft left, which has rallied behind Mr Kinnock's leadership, also feels frustrated. A long, signed article in the latest issue of Tribune by Mr Nigel Williamson, its editor, reflected the views of many on the soft left in saying that they had become "probably the least coherent grouping in the party at present."

He conceded that there had been some significant advances, such as the new social ownership policy on civil nuclear power. But he then complained about the right-wing domination of the shadow Cabinet, and what he called "the party's economic policy drifting dangerously towards social democracy."

In short, Mr Williamson argued, "the realignment of the left may have been an enormous success in electoral terms. In political terms within the party, however, it has been an almost equally spectacular failure."

Mr Williamson argued that what he calls the "realigned left" should concentrate in setting out priorities with targets for achievement for a Labour government. "Without such a long-term, strategic perspective, Neil Kinnock's Labour government is headed for an even bigger disappointment than the Wilson/Callaghan years and the disappointment this time around could be terminal."

Taking up this theme, Mr Ken Livingstone wrote in yesterday's issue of the soft left Labour Activist that "the bitter and divisive splits on the left meant that we failed to provide any counter-pressure from the left on Neil Kinnock to balance that of the right wing."

However, the ever-optimistic Mr Livingstone drew comfort from the large influx of Labour MPs who would be in parliament for the first time if Labour wins the next election. He claimed the new line-up would be 15 per cent Campaign Group, 45 per cent Tribune group and allies, and 40 per cent centre/right.

Mr Livingstone argued that, instead of the present centre/right majority, it would be possible to create a broad left majority if the Campaign and Tribune groups were prepared to work together. He urged a start now, via a joint slate for the shadow cabinet elections, though there is no sign of this so far.

He concluded: "We must not allow sectarianism to prevent us seizing the potential which is opening before us."

Healey attacks comments from US

By Michael Cassell

MR DENIS HEALEY, the shadow Foreign Secretary, last night attacked Mr Caspar Weinberger, the US Secretary of Defence, for his "blatant intervention" in British domestic politics.

His condemnation, which came at a conference fringe meeting, followed warnings made last night by Mr Weinberger on British television that Labour's non-nuclear defence policy would undermine Nato and enhance the chances of war.

Mr Healey said the comments of Mr Weinberger, together with those of Mr Richard Perle, his deputy, were surprising and he professed puzzlement at what he described as the collusion taking place between the US Administration and the British Government, particularly Mr George Younger, the Defence Secretary.

Mr Healey, who was referring to reports that Mr Weinberger and Mr Younger had held discussions aimed at undermining Labour's chances of winning the next election, said he found such co-operation difficult to understand, given that Labour's defence strategy was more suited to declared US defence policies.

He continued: "It is a bit thick to find them attacking the Labour Party for undermining Nato when President Reagan announced a total reverse of Nato strategy when he unveiled details of the Strategic Defence Initiative."

Mr Healey claimed that the US bombing raid on Tripoli and the President's denunciation of the Salt treaty had undermined European confidence in the Alliance more severely than any act since Suez.

He said that in forthcoming meetings with US officials, he hoped they would be "prepared to consider criticisms and proposals from allies, on their merits."

Mr Healey said that the removal of cruise missiles would not damage the Alliance militarily. The F1-11 fighters on British bases were already "long in the tooth"

Pledge to reverse 'housing scandal'

By Tom Lynch

AN EXTRA 300,000 houses would have been built last year if the unemployed building workers had been in work, Mr Jack Rogers, of the construction union Ucatt, told the conference.

"What a shame and a crime that is to society and to those who need homes," he said during a debate on housing. He said previous governments had lost and won elections on promises to build 300,000 homes a year. Mr Rogers argued that it should be the right of every man and woman to have "a decent home, to be employed and to have a decent living standard."

Conference carried overwhelmingly a motion urging a new Labour government to present a Housing Rights Bill in its first parliamentary session, incorporating among other things the right for all public and private tenants to buy their homes and giving councils the duty to replace homes sold where necessary, a duty on councils to house the homeless, and a duty to draw up local housing plans.

It carried unanimously a motion opposing provisions in the current Housing and Planning Bill to enable councils to evict tenants and to sell their homes to private developers. It urged a move towards public ownership of the construction industry through expansion of council direct-labour organisations, contract compliance measures to ensure fair competition and a commitment to the decasualisation of the building industry.

Mr Jeff Rooker, the party's parliamentary front-bench spokesman on housing, said the party's policy was "not dictated by the ownership of the property, it is dictated by the people, their wishes, their needs and their aspirations."

He said 600,000 properties in Britain were empty and two homes in every nine were unfit for habitation – affecting four million families.

Demands for exchange controls rejected

BY IVOR OWEN

DEMANDS that the next Labour government should reintroduce exchange controls on similar lines to those abolished in 1979 were firmly resisted by Mr Roy Hattersley, the shadow Chancellor.

He held to the party's proposals for attracting capital invested overseas back to Britain and stopping further outflows by offering tax inducements, despite vociferously supported protests from the floor that they were likely to prove to be ineffective in practice.

The critics were led by Mr Ian Mikardo, the veteran MP for Tower Hamlets, Bethnal Green and Bow in London, who, in what he described as his "little" conference swan song, chided Mr Hattersley for recently spelling out the details of his proposals to a gathering of financiers in the "lush Waldorf Astoria in New York" ahead of explaining them to the party's rank and file.

To applause, he contended that the "fancy scheme dreamed up for bribing some British investors into putting their money into Great Britain instead of abroad just is not going to work."

Mr Mikardo argued that the London Stock Exchange shared his view and was applauded by Mr Tony Benn, from his place amid the party's national executive on the platform, when he insisted that the Labour government would not be able to achieve its target of securing a one million reduction in unemployment in two years, without returning to the exchange control system dismantled by Mrs Thatcher.

Mr George Galloway, prospective candidate for Glasgow Hillhead, was also loudly applauded when he refused to accept that the growing use of computers meant that it would not be possible to operate exchange controls of the type applied in the past.

Mr Hattersley promised that exchange controls would be introduced when Labour took office, but stressed that they could not be recreated in the form which survived from 1939 to 1979.

He warned: "If we were simply to say that we were going to reimpose the old form of statutory control, money would flood out of Britain before the Labour government was elected."

Franchising continues to grow but competition increases

BY LISA WOOD

THE FRANCHISING of goods and services continues to grow in the UK with annual sales expected to exceed £2.2bn in 1986, an increase of 26 per cent on 1985, according to e survey published today.

However the report, by Power Research Associates, said that the system, accounting for an estimated 2 per cent of all retail sales, has as yet only e modest stake in the UK economy. "In France by contrast, with e population similar in size, annual sales are three times the UK level," it says.

According to the report some 149,000 jobs are now attributed to franchising in Britain, an increase of 35 per cent on last year, with franchising now spanning businesses involving a very small capital outlay to in excess of £500,000.

The five largest sectors involved in the system are home improvements and maintenance, leisure products and services, fast-food restaurants, clothing, fashion and personal accessories and professional and commercial services to business.

Average sales per franchised outlet have dropped slightly since PRA's first report in 1984. This is partly because of the large number of new entrants but also because of the increasingly competitive environment.

Franchising: The Industry and the Market. Changes in Scale and Structure. Price £295 from Power Research Associates 17 Wigmore Street, London W1H9LA.

Bank of England unveils high-tech approach to gilts

BY ALAN CANE

THERE is more than meets the eye to the new face of the Bank of England. The dealing room, pictured here for the first time, is superficially similar to the plethora of high-technology trading posts which have sprung up in the City of London over the past two years. It is, however, unique.

Small, but packed with computer equipment more sophisticated than that found in rooms many times its size, it is the Bank of England's first gilt-edged dealing room, an innovation forced on Threadneedle Street by the deregulatory changes in the London securities market which reach their climax on October 27 with "Big Bang."

The role of Government broker, responsible for selling gilt-edged securities and maintaining liquidity in the market has traditionally been the lot of Mullens & Co., the gilts jobber.

With the new freedom for outside companies to invest in Stock Exchange firms, Mullens becomes part of Warburg Akroyd Rowe Pitman Mullens, owned by Mercury Securities, and the Bank has had to fend for itself. As Mr Ian Chapman, head of systems development at the Bank of England, said: "One day, Mullens was doing everything, the next day we had to stand on our own feet."

The room itself, designed by C&P Technology, is exquisite.

There are 10 positions in all, and each dealer faces a battery of eight video screens. The three immediately in front can carry any combination of information from Reuters, Telerate, Topic, Liffe and so on, all the data the dealers need to monitor market sentiment.

Two screens on either side carry dealing quotes from the inter-dealer brokers. Information from all six IDBs can be displayed simultaneously by using two of the main information screens in addition.

British Telecom's advanced City Business System, where dealers make telephone contact with their counterparts by touching e sensitive screen, is the eighth screen. All the connections can be made in fractions of e second using a colour-coded keyboard matching the colours of the screens.

The Bank is developing e fancy gilts trading modelling system which will run on its mainframe computer, but Mr Hill reckons human intelligence beats artificial intelligence every time. "I'd rather do the calculations on the back of an envelope" he says.

THE ARTS

Paolo Bocelli as Creon and Roberto Abbati as Oedipus

Sofocle/Theater Am Turm, Frankfurt

Michael Coveney

It is four years since I stumbled upon the extraordinary Colletivo di Parme on a free night at the Holland Festival. Their Shakespeare project was one of the best pieces of classical ensemble theatre of the past 15 years. Now, in Frankfurt, they have unveiled a Sophocles trilogy that confirms their pre-eminence as the leading informal classical troupe in Europe; they are the gritty intellectual antidote to the lavish and fashionable scenography of Strehler, Chereau, Grüber and Stein.

In England, at the National and the RSC, we find directors inventing reasons for doing the great plays. The Colletivo based at the Teatro Due in Parma, appropriate these texts to their own culture. This is probably the best way of doing Shakespeare—a fig for the "Elizabethan conditions" theory—and certainly the only profitable approach to the Greek classics. For the dire consequences of knee-flexing neutrality I refer you to the recent BBC TV Sophocles, which took place in a topographical limbo and reeked of earnest intention without ever displaying emotional or cultural commitment.

Greek tragedy is a great, perhaps insurmountable problem for the contemporary theatre. One is always grateful for acts of cultural high-jacking: for instance the recent hot-gospelling *Oedipus at Colonus* directed by Lee Brewer and shown on Channel 4. The Colletivo presents the trilogy in reverse chronological order—*Antigone*, *Colonus*, *Oedipus Rex*—and discovers a binding (and, for that matter, a blinding) synthesis of growing old disgracefully, afflicting memories to stabilise the present, and reconciling an older generation to the contemporary incompetence of all that has been perpetrated.

This is all done by a cast of eight and a band of five (playing a wonderful obbligato score by Alessandro Nidi) who begin on a concert platform. After a sibling struggle between Antigone and Ismène, the house lights come up for an uncomfortable three minutes and the "play" begins. The terrible events are prefaced by embarrassed sotto voce mumbling at music stands, the actors in evening dress finally sucked into the events they have vainly introduced "objectively," jackets removed in a flurry of rotating arms which yield a startling bloody remnant of Polyneices.

The mood is fractured, urgent and uncomfortable, with Tania Rocchetta's abused Antigone, ragged from the dispute with Creon, finding solace—and the first section's emotional centre—as she dons her brother's clothes, lighting one of his cigarettes in a superb sequence of insouciant defiance. The band plays "Smile." Tranquillity spreads as we move into *Colonus*. The authoritatively benign Gigi Dall'Aglio emerges as Oedipus in dark glasses amid a sea of sighs, photographs, offertory blue wine glasses, sheep's wool and the tinkling breeze; the scenic transformation is done minimally, with scaled-down props and a quote or two of Weillian memory music.

The remorseless retreat into the past is signalled by the appearance at Dall'Aglio's elbow of his younger self in the driven, daemonic shape of Roberto Abbati. The grotesque truths and horrors of the first *Oedipus* play are framed in a more studied presentational manner, with deliberate quotations from the pictures of Balthus and the Pirandellian theatre. Antigone and Ismène are seen as traumatised infants cradling dolls and spreading their legs; Oedipus is pinioned on a sofa by his maternal lover Jocasta; the musicians are encased in the setting, the sky turns pink.

The family reunion in *Colonus* is played as movingly as I have experienced it, casting a long shadow over the production's final statement about reconciliation across the generation gap.

"Smile" is one imported song. "Knocking on heaven's door" is another, and the cast disperse as Abbati's young Oedipus bricks up a stairway to the stars, a sealing gesture of both real and surreal import, abandoning the half-finished task with a muttered shrug of "basta." The plays have been given complete (the Italian translation is by Elena Bono) and you can reflect on full-blooded individual readings of Creon by Paolo Bocelli, of Ismène by Laura Cleri, and of an emaciated zombie-like Jocasta by Cristina Cattellani.

This brilliant and significant production plays at the Theater am Turm in Frankfurt until this Saturday before working its way back to base in Parma in November. It is already booked for the Holland Festival next June, and I hope it can be seen in London, for all variety of reasons, but chiefly to demonstrate how a close-knit company commands great drama to its own idiosyncratic style and in so doing keeps greater faith with it than could any number of kowtowing traditionalists.

Visual Arts/William Packer

Catholic taste of high-flying Italian sponsor

Any broad policy of corporate sponsorship of the arts is likely to make for strange bedfellows, but need be none the worse for that. A healthily generous catholicity of interest, with occasional surprises and astonishments, can be more useful to the general good than any single project, no matter how vaunted or spectacular it might be. Two current initiatives of Alitalia neatly make the point.

The more ambitious of the two coincides with the airline's 40th anniversary and yet could hardly be conceived in a longer term, nor set more modestly into its greater context. The *Sala Alitalia*, lately declared open in a corner of the *Sacro Convento* of St Francis at Assisi, is a small gallery which the company has adapted for a permanent display of the Perkins Collection of 57 Italian paintings of the 14th and 15th centuries.

Frederick Mason Perkins was a slightly younger fellow Bostonian to the great scholar, critic and connoisseur Bernard Berenson, under whose influence he came as a young man. He too made his home in Italy and a miscellaneous living as dealer in Italian works of art and adviser to collectors, critic and scholar.

He had a house in Assisi and at his death in 1955, at the age of 81, he left his entire collection to the Franciscans who had become by then his spiritual mentors. The bequest amounted to 133 items, but some had been lost in the War, others variously disposed of or mislaid, and in the event his widow consigned to the *Sacro Convento* only 57 works. There they have remained these 30 years, out of sight save for the briefest interval, awaiting their restoration and that final provision of a gallery to themselves.

Goodness knows there is reason enough to go to Assisi, and certainly the Perkins Gift is hardly of an importance to draw the visitor on its own account. All its works are small, often fragmentary or incomplete, one or two doubtful to say the least and many impossible of attribution, and it contains no manifest masterpieces. But its value lies elsewhere, in these very limitations. For in that astonishing complex of art and architecture, with Basilica and Convent perched high above the plain, taking us from the sanctuary shadows of the Lower Basilica to the light and air of the Upper, we are given as much great art as we can take. At every turn are the frescoes of Cimabue, Pietro Lorenzetti, Simone Martini and Giotto, above all of them Giotto and his life of St Francis, to take the breath away: it is all great and public art.

What we are given by the Perkins Gift in its small room is something altogether more personal and private—the complementary sense of the work of art not as remote, votive icon, nor didactic machine, great and inspiring as it might be, but rather as the object under the artist's own hand, something accessible that carries an image drawn from experience and *is* touched by particular sensibility. Without the artist's touch there is no art; and here, before such delightful and exquisite things as Lorenzetti's half-length St Margaret in her red tunic, the unfinished St Katherine of Bartolo di Fredi with her hand so lightly drawn upon her wheel, the tiny anonymous Tuscan diptych of the Annunciation or, prettiest of all, Pier Fiorentino's Young Saint with St Peter Martyr surreal behind her with his cleaver through his skull, we sense the painter's presence across the centuries, working upon his experience of life as it is, and touching our own.

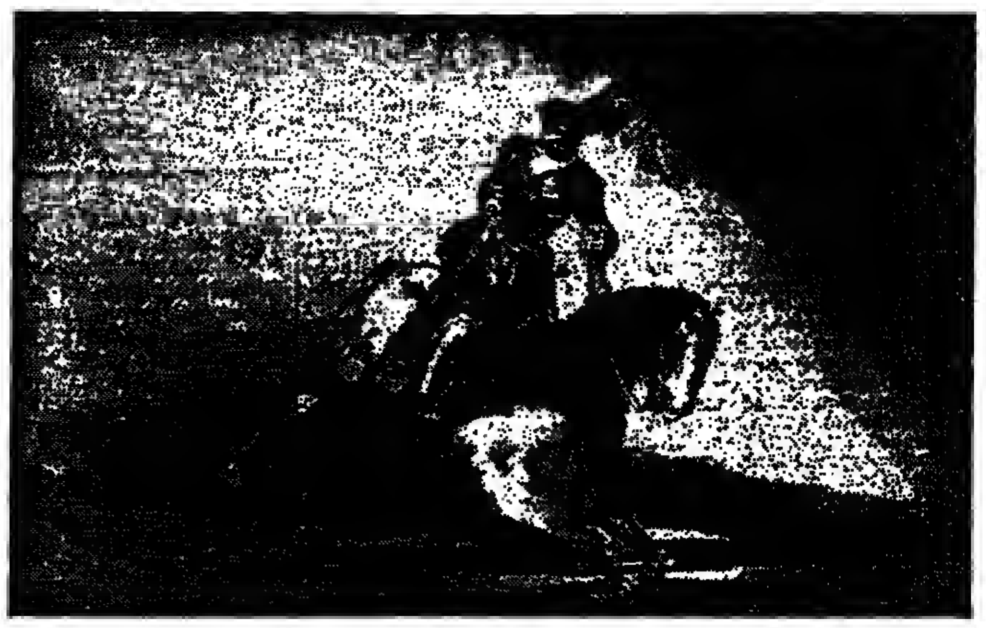
★

Back in London, the second of Alitalia's initiatives is to sponsor *Tauromaquia*, an exhibition chosen by the Solomon R. Guggenheim Foundation from the collection of the Arthur Ross Foundation, showing at the Warwick Arts Trust in Warwick Square until October 26. What with the sketchbooks at the Royal Academy (until November 19) and a magnificent show of lithographs from the 1940s arranged in sets to show the development of the images through successive proofs (until October 25), we seem to be enjoying an impromptu Picasso season, but *Tauromaquia* is not given to Picasso alone, nor even dominated by him.

The noted *torero* of Goya's day, Pepe Illo, who was killed in the ring in Madrid in 1801, published his book on the art of bull-fighting in 1796. Goya's great sequence of etchings upon the theme were made some twenty years later, with the Peninsular War over and Spain free at last of the oppression of Bonaparte. As with his other great print sequences, *los Caprichos* and *The Disasters of War*, his *Tauromaquia* is instinct with symbol and allegory of the greater struggle of the Spanish people; the bull is now the noble tormented beast, now the blind insensate force of destruction.

As a sequence of images—it is shown complete—it is extraordinary, each plate a demonstration of Goya's graphic authority, facility and invention, with nothing repeated, nothing stale.

Picasso, by conrast, in his illustrations to an edition of Pepe Illo's book, all of them carried out in a single afternoon in 1959 and again shown here complete, is more decorative and even off-hand in his treetment of a theme that like Goya he knew so well. The brush flicks and dabs the ink upon the stone, the image reduced sometimes to a mere rhythmical suggestive flurry that releases its information only by degrees. Where Goya is tragic in his mood and implication, Picasso is exuberant and celebratory. They both, of course, honour the bull.



From Goya's Tauromaquia: Carlos V spearing a bull in the Valladolid plaza

From Picasso's Tauromaquia: After the stabbing the bullfighter signals the death of the bull

Antiques/Antony Thorncroft

Park Lane, not quite Mayfair

Antiques fairs are one of the great growth industries of recent years. Most consist of the ill-informed selling knick-knacks to the un-informed, but there are some which attract the top dealers and at which the goods on offer are vetted by experts. Such is the Park Lane Fair which opens in London tomorrow, at the Park Lane Hotel.

This has just about managed to raise itself to the level of an international Fair, well below Grosvenor House in size and splendour but equal to Olympia in quality if not extent. Growing out of a decorative arts fair it will be the major antiques fair in London this autumn.

It achieves this status because the Burlington, the daddy of them all, is not taking up residence at the Royal Academy this year. Antiques fairs have a tortured history of jealousy between dealers; gossip about authenticity, criticism of the same tired pieces being trailed from venue to venue. For the public Park Lane will offer around 40 dealers, selling good items (vetted by Sotheby's specialists) at prices from £100,000 downwards. Significantly the Fair is coinciding with DECOREX, the leading show for interior designers—big customers at antiques fairs.

The biggest stand will be occupied by David Messum, dealers in British paintings and at least partly responsible for the revival of interest in the Newlyn School in recent years. David Messum is based in Marlow to avoid London costs, but needs a capital fair.

In an unusual move this dealer is using Park Lane to sell the contents of his latest catalogue, a lavish book entitled "English Images." Many of the paintings in the catalogue will be at the fair, and to stimulate interest 10,000 copies of the costly catalogue were sent to chief executives of City firms. In line with the Messum approach the text is written in simple lay language to dispel the mystique of picture buying.

Capricorn/Wigmore Hall

David Murray

The Capricorn ensemble continued their keen explorations into the duskier corners of the repertoire on Friday with a programme that boasted not only Franz Schmidt but also Alexander Zemlinsky, with Schubert's "Trout" Quintet as a safe and impeccably suitable companion piece. The "Trout" was dealt with in good humour (it completed a long programme, but no signs of weariness were to be detected), with Michael Dussek sprightly in the central piano part. Perhaps it is invidious to mention also Barry Guy's stylish, resilient contribution — but one doesn't often notice just how good a part Schubert wrote for the double bass.

The Zemlinsky was his early Trio op. 3 for clarinet, cello and piano, rhapsodic and wholly under the sway of Brahms, but with the confident vigour of a composer who would develop an individual voice (or, as it turned out, in Zemlinsky's case, several). That piece too was delivered with amiable panache. It was the Schmidt Quintet — the one in G for piano and strings, without the clarinet that figures so appealingly in his other quintets — that emerged only as a pleasant sketch.

It deserves more, and will no doubt get it in later Capricorn performances. Like other late Schmidt pieces (this one is early late Schmidt, 1926) it is a leisurely affair with a steady glow: for all the magisterial refinement of the writing—as Hans Keller used to insist—it does not generate high symphonic drama, and the special flavour of its individual parts needs to be made compensatingly exact. Here there was too much approximate tuning, too little frank singing, too little discrepancies between one player's phrasing and another's. The spirit was nicely in place, but shyly rendered. More positive leadership—and phrase-shapes—from the first violin would have helped; she was too reticent by half.

Cherkassky/Wigmore Hall

Dominic Gill

Even the standing tickets were sold on Saturday for the first of three recitals Shura Cherkassky is giving at the Wigmore during the next three weeks to celebrate his 75th birthday. He hardly needed the excuse, for every Cherkassky recital is a celebration—and the roar of approval that went up from the audience at the end of the evening was no more than customary homage to one of the great pianists of our age.

Cherkassky's genius is first and foremost textural and contrapuntal. His only temptation—it can hardly be called anything so patronising as "weakness"—is to allow his overriding concern with contrapuntal and textural detail sometimes to overshadow (in classical and pre-classical music especially) the subsidiary rhythmic and harmonic plan. In Cherkassky's hands, it even *sounds* subsidiary. The little A major Schubert sonata with which he opened his programme was exquisite and I loved every minute of it. It occurred to me only, and only then as an afterthought, how different, and still more exciting, it would have been if Cherkassky's rhythmic and harmonic emphasis had been as powerful and as closely focused as his emphasis on voice-leading and melodic accompaniment.

But what he does within those substantial regions which interest him most is so masterly and so astonishing that quibbles are easily forgotten. His performance of Schumann's *Kreisleriana* was in every way what great romantic piano playing is about: mercurial, provocative, passionate, adventurous, shot through with vivid colour, irresistible in its dramatic movement. Nothing flagged, no gesture was tentative: every page was a chorus of conversations and inner voices. For once the *sehr rasch* marking of the seventh Fantasy made sense: I have never heard it so fast, so exact, and so exciting.

He continued after the interval with a serious and beautifully crafted account of Rakhmaninov's Corelli Variations — the more powerful for its understatement, quietly penetrating, with every shade and colour exquisitely restrained. Messiaen's *Ile du feu studies* (Cherkassky has never ignored the music of this century) made a fiery interlude before Liszt's Hungarian Rhapsody no. 12 — a wonderfully witty finale in which not a note was skipped or faked: grand and exhilarating, as quintessentially Liszt (in one of his thousand guises) as it was quintessentially Cherkassky. The second recital is on October 9, Cherkassky's birthday itself: a few tickets do remain.

★

Klaus Tennstedt and the London Philharmonic repeated their Eroica symphony concert of 10 days ago on Sunday afternoon at the Festival Hall with a different piano concerto—Beethoven's no. 2 in B flat. The soloist was Peter Donohoe; crisp, incisive, bubbling with energy—a sparkling partnership. The slow movement was specially impressive: a real Beethovenian adagio, the melody and its delicate elaborations spun out with simple eloquence, rounded by a coda of magical stillness.

Most interesting to note was the difference in Tennstedt's direction between the two concerts. Ten days ago Pollini was the soloist—steely calm and withdrawn, and Tennstedt followed his performance by accompanying respectfully, from a distance. With Donohoe he was engaged, alert, responsive to every nuance.

Mystery of Edwin Drood/York

Martin Hoyle

Under the directorship of Andrew McKinnon, a confirmed musicals man, plans at York's Theatre Royal include the American-backed world premiere of *Fame*, the stage version. Now that on-off negotiations for a London transfer for Broadway's successful musical adaptation of *Edwin Drood* have reached an impasse, York might have weighed in with that—a reflection prompted by their staging of Martin Lewton's new dramatisation of Dickens' unfinished novel.

Don Anderson's set is the now familiar composite: basically a Victorian drawing-room, with sparse furniture and free-standing walls, that does duty as cathedral, opium den and street besides. An apparently mottled texture on the door, walls, mantel and fireplace emerges as the drawing of a Doré-esque townscape, as if one photograph had been superimposed on another. Tony Bird's first-rate lighting facilities switches in time, place and mood. Jasper's opium dream finds him in a swirl of red whorls like the lines on a giant's bloody fingerprints planted on everything.

Mr Lewton's conclusion is disappointing: the main suspect, the drug-addicted choirmaster with the split personality — Dickens's psychological theories were here startlingly modern — turns out to have done it. More seriously, the adapter's respect for the tone of the original places a great responsibility on the actors, of whom only John Gillett's powerful villain — Jekyll, Hyde and Svengali in one — can manage the weight, formality and rolling pace.

Mr McKinnon's production generates an eerie atmosphere, helped by the compactness of a smaller cast (we lose a host of minor characters but this concentrates the plot wonderfully). Good performances from Julian Cope whose Crisparkle, the ideal muscular Christian, benefits from Mr Cope's King's College choral background when leading the responses with a contingent of real choirboys from York Minster school; from Judith Brydon as Helen, one of the Cingalese twins—the theory of dual personality haunts the story—spirited and stylish; from Clare Richards, the opium-den crone.

Arts Guide

Music/Monday. Opera and Ballet/Tuesday. Theatre/Wednesday. Exhibitions/Thursday. A selective guide to all the Arts appears each Friday.

September 26-Oct 2

Opera and Ballet

PARIS

Don Carlos conducted by Georges Prêtre and produced in its original version by Marco Arturo Marelli who, by choosing a sober decor, allows full play to the opera's dreams. Paris Opéra (4266 5022).

Opéra Tuaju. Shanghai: Le Rêve Dans le Pavillon Rouge as part of the Autumn Festival at the Mogador (4285 2880).

WEST GERMANY

Berlin, Deutsche Oper: Die Meistersinger von Nürnberg has Mari-Anne Häggander, Gerd Feldhoff, Gerd Brenneis and Horst Laubenthal. La Bohème stars Luciano Pavarotti. Die Hochzeit des Figaro features Lucia Peacock, Helen Donath, Walton Grönroos and Manfred Röhrl. (34 381).

Hamburg, Staatsoper: This week's highlight is Lohengrin with Kurt Moll, Rene Kollo, Nadine Secunde and Gabriele Schnaut, conducted by Ferdinand Leitner. Der Rosenkavalier has fine interpretations by Judith Beckmann, Hildegard Hartwig, Kurt Moll and Dieter Weller. (35 11 51).

Frankfurt, Opera: Janacek's Die Sache Makropulos is revived with June Card, Susanne Freyler, Jan Blinkhof and Günter Reich. Dido and Aeneas has Glenys Linos and Valentin Jar in the main parts. (2 56 21).

Cologne Opera: Salome has a particularly strong cast with Marita Sirmay, Gwyneth Jones, Martin Finke, Robert Hale and Andrea Andonian. Eine Florentinische Tragödie/Gianni Schicchi features Janice Hall, Anny Schlemm, Margaret Neville and Alberto Rinaldi. (2 07 61).

Stuttgart, Württembergisches Staatstheater: Die Fledermaus is well done with Milagro Vargas, Eva Lind and Toni Krämer. Der Liebestrank rounds off the programme. (2 03 21).

ITALY

Milan: Teatro Nuovo: Scala ballet company. (41 82 66).

Bologna: Teatro Communale: Lucia di Lammermoor conducted by Carlo Franci in Pierluigi Samaritani's production. (22 29 99).

Florence: Teatro Communale: Medea by Cherubini, sung in the original French, with Shirley Verrett in the title role (alternating with Dunja Vejzovic). Bruno Bartoletti conducts and the opera is directed by Liliana Cavani. (277 9236).

LONDON

Royal Opera House, Covent Garden: This week sees the final three operas of the Wagner Ring cycle that Welsh National Opera has brought to London. Richard Armstrong conducts, Goran Järvefelt produces, and the cast includes Philip Joll (Wotan), Anne Evans (Brünnhilde), Jeffrey Lawton (Siegfried), Kathryn Harries (Sieglinde), and Nicholas Folwell (Alberich). (240 1066).

English National Opera, Coliseum: In a decisive attempt to give The Mikado a new look, ENO has invited Jonathan Miller to produce (and throw away all the traditional Japanoiserie) and Eric Idle to make his operatic debut as Ko-Ko; Peter Robinson conducts. Also in repertory: Graham Vick's irritatingly self-conscious production of Madam Butterfly, with Rosamund Illing new to the title role, and a good revival of Miller's Marriage of Figaro production led by Valerie Masterson and Jacek Strauch. (836 3161).

NETHERLANDS

Amsterdam, Muziektheater. A double bill from the Netherlands Opera with Hbaka, a new opera by Otto Ketting, and the National Ballet in Toer van Schayk's Life Orpheus (Mon, Thur). The National Ballet with Hans van Manen's Opening, Live Collective Symphony by Van Dantzig, Van Manen and Van Schayk, and Van Schayk's Seventh Symphony (Tue). The Netherlands Opera presents Verdi's Falstaff directed by Liviu Ciulei, with The Hague Philharmonic conducted by Hans Vonk. Timothy Noble in the title role, John Brôcheler, Ashley Putnam and Anne Howells (Wed). (255 455).

Groningen, Schouwburg. Han Ebbelaar and Alexandra Radius in ballets choreographed for them by Nils Christe, with Christian Bor, violin, and Heiko Aasbd, piano (Wed). Vertical & Rigoletto performed by Opera Forum under Alain Francis (Thur). (12 56 45).

Eindhoven, Schouwburg. Modern Japanese dance from Ariadone No Kai (Thur). (11 11 22).

VIENNA

Staatsoper: Le Nozze di Figaro conducted by Mund with Janowitz, McLaughlin; La Traviata conducted by Boncompagni with Cappuccilli; La Gioconda; Orpheus. (51 444/26 55).

Volksoper: Hänsel und Gretel conducted by Richter; Orpheus in der Unterwelt conducted by Richter. (51 444/26 57).

NEW YORK

Metropolitan Opera (Opera House): The season continues with John Dexter's production of Aida conducted by Nello Santi with Martina Arroyo, Grace Bumbry, and Leo Nucci, along with Manon Lescaut conducted by Julius Rudel in Gian Carlo Menotti's production with Leona Mitchell, Ermanno Mauro and Brian Schexnayder as well as Otto Schenk's production of Die Walküre conducted by James Levine with Hildegard Behrens, Jeannine Altmeyer and Simon Estes. Lincoln Center (362 6000).

New York City Opera (NY State Theatre): The week features the premiere of Anthony Davis's X (The Life and Times of Malcolm X) with libretto by Thulani Davis and story by Christopher Davis in Rhoda Levin's production conducted by Christopher Keene. André Serban's production of Norma features Winifred Faix Brown in the title role with Susanne Marsee as Adalgisa and Robert Grayson as Pollione conducted by Imre Pallo; Scott Bergeson conducts Cynthia Auerbach's production of Les Pecheurs de Perles with Gail Dobish, Jon Garrison and William Stone. Other productions this week are Carmen, Les Bohème and The Marriage of Figaro. Lincoln Center (870 5600).

WASHINGTON

Ballet West (Opera House): The repertoire for this one-week visit includes Sleeping Beauty, The Dream, Symphony in C and Bugaku. Ends Oct 5. Kennedy Center (254 3770).

CHICAGO

Lyric Opera: After a 20-year absence, The Magic Flute returns with Francisco Araiza as Tamino and Judith Blegen as Pamina, conducted by Leonard Slatkin in August Everding's production (Mon, Thur). Michael Tilson Thomas conducts John Copley's production of La Bohème with Katia Ricciarelli as Mimi and Luis Lima as Rodolpho (Tue). (332 2244).

TOKYO

Ningsha Beijing Opera Company. U-Port, Kani Hoken Hall. Gotanda (Mon, Tues). (404 8025).

Noh: There are performances at most of Tokyo's Noh theatres at weekends. Details in Tokyo English daily newspapers and Tour Companion available at major hotels. Two handy little books – A Guide to Noh and Guide to Kyogen – in most hotel bookshops, give summaries of plots.

Takarazuka All-Girls' Revue. This phenomenon, pre-synthesis of Kabuki where all the roles are played by girls but with typical Japanese innocence and earnestness, is a must for visitors. Takarazuka perform elaborately staged and skilled musical adaptations of both Japanese and Western plays – also revues and standard musicals. Highly improbable plots are more than compensated for by spectacular stagings and huge casts. Takarazuka provide another insight into the incongruous mosaic of Japanese culture. Detailed English summaries in the programme – in case the original story is altered beyond recognition. Takarazuka Theatre, near Ginza and main hotels. Afternoon and evening performances. (591 1711).

FINANCIAL TIMES
BRACKEN HOUSE, CANNON STREET, LONDON EC4P 4BY
Telegrams: Finantimo, London PS4. Telex: 8954871
Telephone: 01-248 8000

Tuesday September 30 1986

Labour shifts to neutralism

THE Labour Party has for some time tried to put across the idea of a defence policy combining two different themes: on the one hand, a sharp downgrading of the role of nuclear weapons in the alliance, starting with the abandonment of the British independent deterrent and the removal of the US nuclear bases; but on the other, continued loyalty to Nato, with an explicit commitment to strong conventional defence. Reconciling these two themes always looked questionable; it now appears that Mr Neil Kinnock, Labour's leader, has made an interpretative leap which looks like taking the party over the threshold into neutralism.

So long as Nato survives pretty much in its present form, Britain's independent nuclear deterrent is not militarily vital for the defence purposes either of Britain or of Europe; so long as the US remains committed, with over 300,000 armed men, to the defence of Europe, Britain's four Polaris boats are bound to be marginal compared with the vast American nuclear arsenal. For a Labour government voluntarily to abandon Polaris and renounce Trident would therefore make very little military difference to Europe's security.

Nuclear weapons

The political implications of such a unilateral renunciation would be rather more serious; for it would suggest, in the clearest possible way, a downgrading of the Labour Party's commitment to the common defence. The discussion document being submitted to this year's party conference implies that a Labour government would channel at least part of the savings from the cancellation of Trident, for at least a few years, to increased conventional defence; but the terms in which this idea is put forward, cast the gravest doubt upon its sincerity. On the contrary, the electorate is expected to believe Labour would increase conventional defence spending while at the same time reducing the defence budget to the average level of the rest of Nato in Europe.

Much more serious, for the security of Britain and Europe, would be the Labour Party commitment to remove all US nuclear bases from the UK. In military terms, it would be extremely difficult for the alliance to relocate all its land-based nuclear weapons within Germany and the low countries; in political terms, it would be even more difficult for the US to make sense of an alliance defence doctrine which depended on the deterrent effect of nuclear weapons, when one of the alliance's most important European members had publicly dissented from that doctrine.

That dissent has just been made explicit and total by Mr Kinnock, when he declared he would not expect to be defended by US nuclear weapons. This goes a good deal further than the partys commitment, in its policy document Defence and Security for Britain, to a policy of No First Use of nuclear weapons and the removal of all battlefield nuclear weapons from Europe, and to the eventual aspiration for a conventional defence. The meaning of Mr Kinnock's remarks is that he rejects right away the foundations of the Alliance's defence posture.

Conventional defence

No one in their right mind welcomes the existence of nuclear weapons. But for the moment, they happen to be an unavoidable ingredient in any plausible defensive posture against the Warsaw Pact. Some strategic nuclear weapons are needed to deter the threat posed by the strategic nuclear weapons of the Soviet Union, if the West is to be immune to the danger of nuclear blackmail; and some shorter-range nuclear weapons are needed because Nato has consistently refused to equip itself with conventional forces to match those of the Warsaw Pact.

Many people, right across the political spectrum, and in all European countries, believe it would be sensible to reduce Nato's dependence on nuclear weapons, and to strengthen conventional defence in part through mobilising new technologies. But such a shift in posture can not be imposed on the alliance by a dogmatic Labour Government; it can only be a matter for negotiation between members of the alliance who are prepared to respect each other's differing points of view.

Similarly, there are many people who believe European countries should take more responsibility for their own security by cooperating more closely, so as to be able to defend specifically European interests even when they diverge from those of their American ally. But the anti-American policy implied by the Labour Party's defence posture is less likely to lead towards a closer relationship between Britain and the rest of European Nato, than towards a situation in which Nato is shaken to its foundations, if not immediately destroyed, and in which Britain takes refuge in neutralism.

Bridge over Treasury waters

THE IDEA of applying Channel Tunnel principles to the Thames crossing at Dartford is a very welcome practical development of infrastructure policy. The bridge is a geographical as well as a financial extension of the Channel Tunnel idea and its construction will put idle men and resources to excellent use, subject to the test of market demand. However, the project raises questions of economic and administrative theory which look likely to stretch the minds of a whole generation of examination candidates.

The central question can be put in the words of Mr Bumble in Dickens's Oliver Twist: if the law says that, then the law is an ass. In other words, if the rules of public finance rule out projects which make sense when they are privately financed, then it looks as if the rules need changing. The case for economically productive projects should be determined simply by the cost of finance and the expected rate of return, and not by whose name appears at the top of any required loans.

This constraint results from the exaggerated importance attached by the Government to targets for public-sector borrowing — a purely man-made obstacle, and a rule which generates bad policy. It can be used not only to block sound projects — in the present case the bridge could only have been financed in the public sector by cutting other road programmes —but to justify unsound spending, provided it can be financed from asset sales. A balance sheet approach, as proposed by Labour, is sounder in theory, though likely to be much more questionable in practice. A separate investment account for paying projects, as practised in Japan, is a more limited but practical solution.

There may, of course, be other benefits from leaving the work to the private sector. Trafalgar House will have stronger incentives than any government department to ensure that the work is done economically, but without false economies. The problems of cost control in the public sector are most familiar from defence horror stories, but they are pervasive and intractable.

Even where the tendering process is working well it can be hard to strike a proper balance between initial and recurrent costs. Where capital costs are met by one department and running costs by another, there is a tendency to gold-plated specifications; under other arrangements, capital constraints can lead to uneconomic penny-pinching. The Dartford project, if it is carefully-enough monitored, could provide a useful yardstick for government departments.

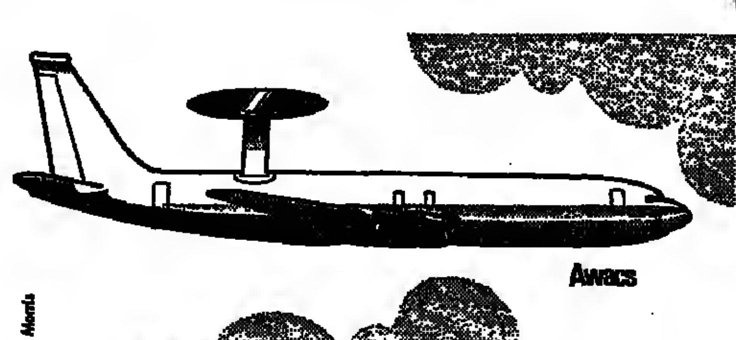
Finally, there is a clear examination topic in transport economics. A government provides motorways without charge, but contracts with a private company to link them with a bridge and tunnel on which charges, designed to recover full capital costs in 15 years, are to be levied. Discuss.

Greatest benefit

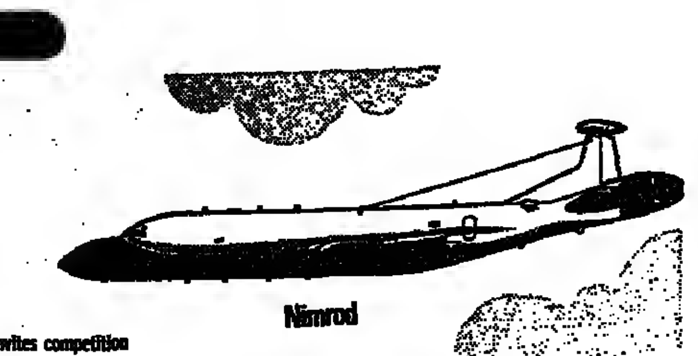
While it is impossible to do justice to all the issues this raises on one side of a single sheet of paper, it is clear that both policies cannot be right, and likely that both are wrong. The case for tolls on new roads —which are, after all, levied in nearly all countries except the UK—is only partly a matter of cost recovery, which can indeed be managed just as well by a system of vehicle and fuel taxation. It is also a question of using market incentives to ensure the greatest benefit from the total of available transport resources.

By charging for the benefit of a fast through route, congestion is reduced. In the same way, road users benefit if some road tax is used to attract traffic off the roads on to the railways and canals. However, the charges can be too high, if they push potential users into less efficient alternatives when spare capacity is available. There is no sign that any of these issues have ever been considered in British policy. They order these things better in some other countries.

THE NIMROD SAGA


Awacs

1964 MoD committee recommends UK have AEW by mid-1970s
1972 RAF Shackletons with primitive AEW radar enter service
1976 RAF defines its AEW requirement
1977 MoD gives Nimrod AEW programme go-ahead
1978 Group of European Nato members buy Awacs
1981 RAF retires half its AEW Shackleton squadron
1982 First Awacs delivered to Nato
1984 Nimrod fails RAF evaluation
1985 Last of 18 Awacs delivered to Nato
1986 March: MoD gives GEC Avionics short new contract and invites competition
July: Seven companies, including GEC, bid for UK AEW contract
September: Run-off between Nimrod and Awacs starts


Nimrod

Leighton Morris

High-cost quest for the right answer

By David Buchan, Defence Correspondent

MANY COUNTRIES are going to considerable cost and trouble to buy themselves a form of military reassurance known as airborne early warning (AEW) radar. It is based on the simple principle that the higher you are, the further you can see. The aim of having a high-flying AEW radar system is to be able to look over the horizon, and spot any of the new generation of fast-flying, terrain-hugging attack aircraft before they spot you.

But would you feel reassured by an AEW radar that had a tendency to pick up a stationary North Sea oil rig, a moving helicopter and a crawling number nine bus in Newcastle, plot them together and conclude that a Soviet strike was on its way?

Yet this was, until a few months ago, one of the disquieting habits of the radar developed over the past nine years by GEC for the all-British Nimrod AEW programme that has, so far, cost the UK taxpayers £930m.

GEC Avionics now claims that, as a result of 1,500 of its engineers working frenziedly through the summer, it has removed most, if not all, of the "clutter" and "false plots" from its radar detection and tracking system. It further claims that it will now be able to deliver to the Royal Air Force in a year's time the first batch of three, properly functioning, AEW Nimrods that will form "the most cost-effective AEW system in the Western world."

Enough of this claim was believed by the UK Ministry of Defence (MoD), for it last week to include Nimrod on its "short list" of contenders to supply Britain with a long overdue AEW system. The only other name on this very short list is that of the Boeing E-3 Awacs aircraft, the most costly and sophisticated AEW aircraft in service. So, the widely predicted straight fight—Nimrod versus Awacs—will now take place.

Eliminated last week from this contract competition, which was the most complex the MoD has ever run, were two big US contenders, Grumman and Lockheed, and three UK "also-rans," MEL, Airship Industries and Pilatus-Britten-Norman, which joined in largely out of a mixture of self-advertisement and response to MoD enticement to give a more British flavour to the field.

The first round was intense enough, and the main contenders, certainly the US companies, spent heavily in preparing their bids to the MoD; Lockheed admitted to $2m in its case. The lobbying extended far beyond the MoD's 50-strong team of AEW evaluators, overtly to the press and discreetly to MPs. Technical merits and demerits were bandied back and forth: Grumman even took full-page advertisements in UK national newspapers to tell bemused readers about its ultra-high frequency (UHF) radar. Virtually all was revealed, except for the key issues of the RAF's technical requirements (classified) and the bid prices (kept secret at MoD insistence).

But in the final run-off, to be decided by the end of the year, the stakes become much higher. They are perhaps least high for Boeing. It stands to make a clean sweep for the "rich country" market for AEW, have already sold 34 Awacs to the US Air Force, 18 to Nato and five to Saudi Arabia. It would clearly like to keep open an Awacs production line that without the UK order will stop in mid-1987.

GEC, however, is fighting for its name. Mr Jim Prior, chairman of the GEC group, made this clear when he said that "the reputation of the whole company." Britain's second largest defence contractor, was behind the Nimrod bid. GEC has been tarred by association with one of the biggest cost and time over-runs in UK defence contracting history: originally the whole Nimrod programme was to have been completed for less than £900m by 1982. Nimrod is now, fairly or unfairly, a by-word for the worst type of "cost plus" contract the MoD is trying to get away from.

Face-saving, rather than money-making, is now the company's aim. Whatever it might have hoped for at the start, GEC has made virtually no profit on Nimrod over the past nine years, according to Mr Jack Pateman, the former head of GEC Avionics and now a director on the GEC main group board. While GEC would clearly have lost heavily had it been on a fixed price contract, even on a "cost plus" basis, Mr Pateman claims, it has only made between £4m and £5m profit on the £330m of government money which has gone through the hands of itself and its direct sub-contractors. (The remaining £600m was spent by British Aerospace and its sub-contractors.) This profit, Mr Pateman says, was more or less wiped out by the £5m which GEC spent out of its own funds up to March 1986.

Since then, GEC Avionics has been on a special interim fixed price contract of £50m, funded 50-50 by the Government and the company. The arrangement is that, if GEC fails to keep its Nimrod contract, then it loses the £25m it put in. If it keeps the contract, it will be repaid the £25m.

But there will be probably little margin for GEC in any successfully re-negotiated contract.

If, therefore, profit alone were the yardstick, GEC would probably throw in the towel on the UK contract. But there is also the lure that supplying Britain with an AEW system might open up a wider export market.

Success in this export field would secure for the next decade 2,500 very hi-tech jobs, which Nimrod cancellation would otherwise jeopardise, says the GEC management. In all its claims it a strongly backed by its main technical union, Tass, which has attacked the government for "irresponsbility" in ever seeking US competition.

It is for the government that stakes are highest. GEC as a group may not be exactly popular. Its recent bid to use its large pile of cash to enlarge itself by acquiring Plessey, rather than competing with it, won a firm thumbs-down, at least from the MoD. Its buying of Westland shares in support of the "European" bidders for that company will not have endeared Lord Weinstock, GEC's chief executive, to Downing Street. Nor will current publication of Mr Prior's political memoirs, with their many cuts at "Margaret's leadership."

But it would be chancey in an election year to write off £900m and fork another £1bn out of a constrained defence budget, to risk aggravating economic xenophobia (already stirred by recent transatlantic tussles over Westland and Leyland) by giving a mega-contract to a US company, and to hit the country's industrial prestige by ending British endeavours in so hi-tech a field as AEW.

For cancelling Nimrod would do just that, as surely as the 1960 cancellation of Blue Streak put an end to British manufacture of nuclear missiles. Boeing's offer to place offset work with UK industry up to 100 per cent of the value of its Awacs bid will not mitigate this.

> There is an all-or-nothing starkness about the dilemma facing the Thatcher government

All the US competitors were asked by the MoD to offer 100 per cent offset. The difference with the Boeing offer, however, is that while the Grumman and Lockheed systems needed substantial development or modification to fit the UK's needs—which was why they were ultimately rejected—the Awacs system requires very little modification that UK companies can do. So only 10 per cent of Boeing's offset would be directly related to the Awacs, and 90 per cent would come in other areas of the US aerospace giant's activities. This may give individual British companies substantial opportunities, but will not keep British industry in AEW.

Should it be? Even if it was natural for the UK to have been in AEW technology in the first place, is not now perhaps the time to call a halt? The worst possible outcome might be for GEC to carry on but still fail to deliver workable Nimrods and so for the RAF still to be screaming, a few years hence, for something with which to meet its AEW commitments to UK and Nato defence. At that point a UK government might have to search abroad for a system which (if a company like Boeing had ceased Awacs production, but had not yet developed a successor to it) might be unavailable. That, arguably, is the most irresponsible line the government could take.

This is the all-or-nothing starkness of the dilemma confronting the Thatcher government: pour fresh money after old into the home-grown project, or write nearly £1bn off and spend as much again on a purely foreign system.

It illustrates, perhaps, better than any other recent procurement decision, the need for medium-sized countries to try to collaborate, preferably with each other, to share costs and risks in developing and producing sophisticated defence equipment. This has been underscored by the fact that France now wants to join Britain at the AEW auction. The aim is that by the end of this year both governments should be able to make the same choice and so drive down the unit cost of an Awacs or a Nimrod, to their mutual benefit.

The joint effort may not work. The French air force has developed something of a predeliction for the big and comfortable Awacs. France, too, would have to find a different airframe from the Nimrod — unless the RAF was ready to make do with less than 11 Nimrods—in which to put the GEC radar. Yet the British AEW short list suits the French, who have tested the Awacs and have asked GEC to demonstrate the Nimrod in French airspace in November.

This belated attempt at a common purchase reverses the usual procedure where joint purchasing only follows joint development and/or production. Might an Anglo-French AEW programme from the start, have been possible?

It is hard to say. Only by the late 1970s did the French realise their need for an AEW system — and then only for some three Awacs, or four to five smaller aircraft (like Nimrod) to patrol their Mediterranean and Atlantic coasts, and make the odd excursion to francophone Africa.

But had France joined in, it is reasonable to speculate that French participation, in addition to sharing cost, might have eased some of the technical problems that have plagued GEC.

One problem has been the difficulty of cramming so much sophisticated equipment, requiring considerable power and cooling, into the tight and antiquated Nimrod airframe.

The two countries might have together gone for a larger airframe—their co-produced Airbus, for instance. Another airframe, able also to carry the Awacs-type circular radome on top, would have meant GEC would not have had to use the two radar antennae that form the distinctive bulbous nose and tail of Nimrod, with the attendant tricky task of correctly sequencing incoming and outgoing radar signals from them.

Again, had the GEC radar been developed from the start with an eye on French needs (predominantly for patrol over land), the UK company might not have been so unpleasantly caught short in 1982. It was then the MoD, having previously told GEC it wanted a system mainly for use over water, declared it must also be as capable of patrolling over land.

Mischance, in the sense of mistiming between various allies deciding when they wanted an AEW system, has indeed dogged the cause of AEW collaboration. Indeed, the ultimate irony is that had not West Germany crucially delayed, until 1978, the Nato decision to buy Awacs, it is highly likely that Britain would not have decided, in 1977, to fly solo with Nimrod and would have bought Awacs instead.

That might have been, in retrospect, a very good thing as even some GEC executives now admit, although they also argue, that their company has done very well to take a AEW radar so far in nine years, compared with the 15 years that elapsed between conception and entry into service of the Awacs.

But the £930m spent on Nimrod is a political fact, and the radar improvement since March—when GEC was at last given its head as prime contractor on the programme—appears to be a technical reality. It is, therefore, natural that the Nimrod AEW should be, in the UK government's eyes, the favoured candidate, not to say the favourite, in the run-off with Awacs.

Equally, however, it is important to the RAF, the cause of international collaboration and to the future of British defence procurement policy, that the rival be given due weight and that out of the contest emerges, at last, the right answer.

Men and Matters

Safety first in France

Ever eager to find new uses for the minitel — the small computer terminal now supplied free of charge to French telephone subscribers—the French Government is to use it in the cause of safety in the nuclear age.

Before the end of this year, minitel users will be able to consult their small video screens to find out the latest levels of radiation throughout France. The information will be updated regularly by a special service of the French industry ministry, drawing on the expertise of the country's nuclear authorities.

The idea is to improve the amount of public information about nuclear energy in a country with one of the most advanced networks of civil nuclear power stations in the world. The project was cooked up by the energetic and media-conscious industry minister, Alain Madelin, as a response to worries caused by the Chernobyl accident.

It is also an effort to capitalise on the increasing popularity of minitel. The success of the system has been such that at one point the special communications network on which it operates broke down under the load.

French telephone subscribers are now using their minitels to book rail tickets, make bank transactions, and find out what is on at the cinema. Some have even discover it can be a messenger system for arranging erotic encounters.

A French industry ministry official remarks of the new radiation levels service — "It will be most useful. Before setting off for a country weekend you will be able to check whether it is safe to go. . . . "

"All my Militants suddenly walked out—do you think it's my cooking?"

Captive market

Stephen Butterworth, aged 43, who started yesterday as the Guernsey government's first supervisor of insurance business, will have to explain the island's new insurance business law to an international meeting of experts tomorrow.

The hot topic that is attracting 150 insurance men to this small island in the Channel is "captive insurance." The term is shorthand for companies set up by large organisations to insure all or part of their own risks from an offshore finance centre. Some businesses find "captive" insurance more cost and tax effective for their needs than direct cover on the commercial insurance markets.

Traditionally, Bermuda has been the main base for American-owned "captives." Now Guernsey is making the running in Europe. Nearly 160 "captives" are being managed on the island — among them companies owned by NatWest, Barclays, Credit Suisse, House of Fraser, Burton Group, Marks and Spencer, and many others. Even the Roman Catholic church in Britain has found it worthwhile to set up its own Guernsey "captive."

Butterworth, an accountant and tax specialist from Lancashire, who moved into the insurance business as financial controller for the General Insurance Group on the Seychelles in 1979, expects to be on familiar ground when fielding questions. After the Seychelles he moved to that even better-known offshore finance haven, the Cayman Islands, where he was deputy superintendent of insurance.

Sub rosa

Would Neil Kinnock, Britain's Labour leader, have been quite so keen to adopt the rose as his party's new emblem, I wonder, had he known that he will probably have to share it with the US?

Caspar Weinberger, the US Defence Secretary, is currently making life difficult for Kinnock over Labour's anti-nuclear defence policy.

The US Senate chose the rose to be the American national flower a year ago—after rejecting the dog wood, corn tassel, mountain laurel, columbine, and the marigold.

But only now, in its rush towards adjournment, has the US House of Representatives also voted the rose in.

Congressmen have decided it is the rose that is America's favourite, and one flower which is grown in all 50 states. No matter that a goodly number of roses sold by American florists actually originate in Colombia.

"The rose," says congressman James Hansen of Utah, is easily recognised, attractive and a native American flower."

President Reagan must still sign the legislation, and the White House has yet to indicate what he will do. But the President will certainly find it difficult to resist the eloquent verse written in favour of the rose by Senator Howell Heflin of Alabama, who declares that:

"The rose is universal,
Its support has a strong voice,
So there should be no question,
That the rose is our choice."

No entryism

Eric Heffer, who stalked out of last year's Labour conference in Bournemouth when Neil Kinnock denounced the Militants, had an equally unhappy time getting into this year's gathering of the comrades at Blackpool yesterday.

The tight security arrangements require everyone entering the conference hall to be meticulously checked — even so far as having the palms of their hands tested for recent traces of gelignite or other explosives.

Heffer protested vigorously when he was told to get into line behind some political journalists for the full treatment.

A member of the Lancashire constabulary remained unmoved by Heffer's complaint that it was "ridiculous" for such prominent members of the Labour national executive as himself to be subjected to such checks.

The rest of the queue showed no sympathy. "This is democracy at work, brother," one of the waiting line observed. "Start queueing here."

Heffer snorted: "I am having all this changed" — and hurried away to find the entrance specially reserved for Labour's VIPs.

Her little ways

There is definitely no political meaning, British Nuclear Fuels assure me, in the caption under a picture of the Prime Minister in its latest annual report.

It shows her operating "a Master Slave Manipulator."

Observer

Letters to the Editor

Lessons of Thatcherism are not lost on Labour

From Mr R. Green.

Sir,—Mr John Redwood's portrait of Britain under Thatcherism in comparison with other countries (September 17) may score highly for its jingoism, but little for its accuracy. A small minority of individuals has benefited from tax reductions and the explosion of City salaries, but this has merely exacerbated the contrast between what Galbraith termed "private affluence" and "public squalor." It would require rather more than a few tarted up tube stations to offset the effects of the continual cuts in public expenditure on the conditions of life for the majority. (The "smartening up" of London noticed by Mr Redwood, designed mainly to impress tourists, is about as significant for the inhabitants as the traditional cleaning-up of the routes for royal processions.)

Privatisation has in general not resulted in greater competition but simply in the transference of public monopolies, where they were subject to a degree of restraint in the public interest to the private sector. The "watchdog" bodies are weak and almost certainly will prove ineffective as curbs on the abuse of monopoly power. What is being created under the guise of the "return to Victorian values" is in fact a system more akin to the state supported private monopolies of the mercantile system which was the object of Adam Smith's attack.

In material terms the consequences of Thatcherism for the economic and social fabric of Britain have been disastrous. Hence the Labour Party is committed to a radical and far-reaching programme of reconstruction which will be essential merely to arrest the process of collapse. Nevertheless at the ideological and political level, Thatcherism has produced a more lasting shift in attitudes. It is here that Labour can be seen to have learned a number of lessons since its defeat in the 1983 election.

Thatcherism's critique of the public sector has involved more than a simple dichotomy between public and private with the latter to be preferred merely on grounds of economic efficiency. More fundamental is the idea, as Mr Redwood puts it, of "returning power to the people." Yet the means chosen to accomplish this objective of "popular capitalism" are woefully inadequate. Share ownership is still highly concentrated. Most small investors saw the British Telecom flotation realistically as an opportunity for quick speculative profits rather than ideologically as a shift in the structure of economic power.

Similarly, employee share ownership schemes, which under Nigel Lawson are little more than tax perks for the highly paid, would even if extended more broadly, have the effect of making workers more dependent upon their employers rather than increasing their power over management decisions. Nevertheless, the underlying idea is valid and strikes a chord of popular sentiment. The Labour Party has sought to accommodate it by shifting the emphasis away from control by the state, the traditional conception of economic planning, towards greater democracy in industry and the involvement of working people in the decisions which affect them.

The second lesson concerns the importance of presenting policies in a form which is geared towards the aspirations of the electorate with the emphasis on values and themes instead of the kind of detailed shopping - list constituting Labour's programme for the 1983 election.

The fruits of this approach can be seen in the current "Freedom and Fairness" campaign which commands the support of all sections of the party. Indeed, a book recently published by the Institute for Workers' Control containing essays setting out radical perspectives for the development of Labour's industrial relations and economic policy is entitled "Freedom and Fairness: Empowering People at Work." In its foreword, John Prescott, Labour's Shadow Employment Minister argues that "if our ideas and proposals are to have any practical meaning, we must use them to win power."

Thirdly, Labour has learned to avoid unnecessarily specific commitments. Thatcherism's "step by step approach" has demonstrated that it is easier to justify particular measures in the context in which they are taken, each building on the success of the last, than as a full programme set out in advance. In his 1985 John Mackintosh memorial lecture, Neil Kinnock argued that specific reforms "will not only attract support for travelling further in a progressive direction, but will illustrate, by the undoubted resistance which such a programme would engender among sections of Britain's capitalist class, the very necessity of profound transformation of the economic and social system."

Thus Labour's Shadow Chancellor Roy Hattersley has avoided giving too many specific [illegible]. An ambitious programme of selective public spending on infrastructure is seen as essential. Exactly how far this can go will be determined by circumstances at the time, but the pressure to expand the programme once it is initiated will ensure that it operates near maximum output.

In a careful phrase reminiscent of Mrs Thatcher's statement on VAT before the 1979 election, Mr Hattersley's recent speech in New York stated that Labour "has no intention of re-introducing statutory exchange controls." Although Labour is hardly likely to go into an election promising to reintroduce exchange controls, it cannot afford to allow £1bn to leave Britain each year.

The disastrous economic consequences of Thatcherism will compel the next Labour Government to pursue a radical programme to direct investment into priority areas and redress the balance of power in favour of workers and unions. In the presentation and implementation of such a programme, however, the lessons of Thatcherism have not been lost on Labour.

Roy Green
(Labour Party Research Officer).
Great Eversden, Cambridge.

Disincentive for women to work

From Mr W. E. Weisflog

Sir,—In his article "Support for tax changes sought" (September 12) your Economics Correspondent states (quite correctly) that various groups have argued that the Government's proposed system would act as a disincentive for women to work . . . May I point out that in its previous green paper (Cmnd 8093) the Government itself has admitted the possibility that fully transferable allowances could well discourage some married women from taking up work in the first place. I quote:

"72. Work incentives: Under fully transferable allowances, a wife's income up to the level of the single allowance would effectively be taxed at the husband's marginal rate. The married woman herself would not pay any income tax but the husband would lose the transferable allowance from his PAYE code which he had enjoyed while he was the sole earner. Looked at from the point of view of the family as a whole, a fully transferable allowance could well discourage some married women from taking up work in the first place. This would be particularly true where she was contemplating part-time work, when all her income could bear tax at her husband's marginal rate."

On the other hand, Cmnd 9756 states (on page 15) categorically: "In principle, transferable allowances are neither an incentive nor a deterrent for married women seeking work."

Hence the two Green Papers would appear to contradict each other on this point. Which one is right?

W. E. Weisflog,
22, Roedean Crescent,
Brighton, Sussex.

From Mr J. Perry.

Sir,—I am interested in how Japanese sanctions against South Africa, as Ian Rodger describes them (September 20) can be "limited but substantial." Surely something is either limited or substantial. Or is this another of those pieces of Oriental wizardry to which we westerners are not privy?

The phrase brings to mind a United Nations document which crossed my desk recently. Headed "for restricted distribution," its first sentence was: "please give this document the widest possible circulation."

John Perry,
1 Chemin de la Batie,
1213 Geneva, Switzerland

Keen interest in the Savoy

From the head of Press and Public Relations, Trusthouse Forte

Sir,—It is impudent of Mr Giles Shepard (September 19) to imply that Trusthouse Forte's efforts to take over the Savoy group have been totally unsuccessful. On the contrary, the present situation is that, with over 69 per cent of the total equity in our hands, the Savoy group is effectively a subsidiary of Trusthouse Forte under the provisions of the Companies Act 1948.

However, even though we are the majority shareholder, Mr Shepard and his fellow directors have sheltered behind an archaic voting structure and have resisted our attempts to gain control. They repeatedly refuse us representation, despite the fact that personally between them the Savoy board owns beneficially in aggregate less than 2 per cent of the equity.

In the circumstances, it is hardly surprising we take a keen interest in the management of the Savoy group and we resent Mr Shepard's suggestion that the standards of the hotels in the group would be abandoned if they were to be placed under the control of Trusthouse Forte.

He deliberately chooses to overlook that our hotels maintain comparable, if not superior, standards.

The quality and expertise of our management style would not only maintain and improve these standards but produce a far better return than some of the Savoy group's poor and disappointing results of recent years—to the benefit of shareholders, customers and staff.

A return in excess of 30 per cent may be "unheard of" in Mr Shepard's organisation, but it is achieved consistently in our comparable hotels without resorting to corner-cutting or raising prices to inordinately high levels.

If he is enjoying such a high but unspecified level of occupancy, it is surely reasonable to ask why the group is not making better returns?

John Robbins.
86, Park Lane, W1.

Port subsidies and competition

From the chairman, Associated British Ports

Sir, — Mr D. J. Jeffery of the Port of London Authority takes issue (September 24) with my recent references to the distortions caused by government subsidies to the Ports of London and Liverpool. He maintains that these subsidies relate only to the cost of dockworker severances.

I think I can do no better than to quote directly from the recently published report and accounts of the PLA for the year ended December 31 1985.

"The group source and application of funds statement includes the following item:

	1985 £000	1984 £000
Government grants (excluding severance grants)	15,613	3,613

and the following in the notes to the accounts (Item 1(e)):

"Government grants in respect of severance costs and interest relief are credited to profit and loss accounts in the year in which the relevant costs are incurred. Grants received for the purpose of repaying loans are taken direct to reserves. Other assistance in the form of loans written-off is also taken direct to reserves."

All this relates to one year only. The cumulative position over many years illustrates the even greater element of discrimination and distortion of the ports market. This again is referred to in the PLA's own accounts under Note 19(b), which reads as follows:

"The total amount of Government grants receivable by PLA group (excluding £11.6m which related to severance payments on behalf of other employers) is as follows:

	1981 Act £m	1980-Act £m
Dealt with in 1985 accounts ...	11.5	—
Dealt with in prior years	182.4	31.1
	193.9	31.1

"A provision of £14m (1984 £14m) has been made for the possible repayment of grants received under the provisions of the 1981 Act."

Need I say more?

(Sir) Keith Stuart.
150, Holborn, EC1.

Tax reform in Japan

From the president, Mikuni

Sir,—I wonder — having just read your editorial (September 16) suggesting that the US and Japan should do a trade on tax reforms — whether statesmen in the West realise the degree of influence they can in fact exert on Japan? Yes, there is a "symbiotic" relationship between Japan and America, as you put it; but all too often the Americans fail to see what is really going on in Japan, and therefore cannot influence events.

Tax reform, to my mind, goes to the heart of the problem over trade between Japan and the West: this is the point that Treasury Secretary Baker overlooks when he pleads for a higher yen, as the sole mechanism available to hammer down our trade surplus. Beating on the yen is to treat a symptom. Tax reform, if properly conducted, attacks the roots of the social value differences between Japan and the West that at present still make it impossible for us to "play by the same rules" in Japan.

What we have in Japan is an extremely aggressive, 100-year old tax system that pursues the twin goals of industry and exports at the expense of trading partners. Just now I think in two to three years — we have an opportunity in Japan to switch the whole basis of our economy from a centrally-directed monster to a genuinely free enterprise, market economy of the "Western" type. The key to this complex shift is tax reform, but so far I see no sign that the Bankers or even the Howes and Lawsons of this world have got the point.

Akio Mikuni.
12-1 Nishi-Shimbashi 1-chome,
Minato-Ku,
Tokyo, Japan

Fraud and the tin agreement

From Mr M. W. Metcalfe

Sir,—The agreement between the US and the UK "aimed at cracking down on international fraud and malpractice in financial markets," described in the two articles by Clive Wolman (September 24) has come a year late for the companies involved in the tin crisis.

It is ironic that the Department of Trade and Industry, one of the memorandum's signatories, was also the department which negotiated, agreed, signed and helped administer the sixth International Tin Agreement. The International Tin Council, the agent of the 22 member states of the agreement, ceased trading on October 24 1985, and subsequently defaulted on legal obligations to metal traders and banks, thereby causing losses in excess of £700m.

The new agreement is especially concerned with "fraudulent misrepresentation by dealers and market manipulation, in particular the cornering of commodity markets" and covers "capital adequacy, competence and honesty."

The activities of the member states of the International Tin Agreement can be described accurately in these terms as they blatantly breached all known standards of honest commercial behaviour.

The DTI is now re-assuming its role as regulator and policeman of commercial activities, but blithely forgetting its own severe lapse of competence and integrity. Mr Channon and his department are trying hard to eschew the consequences of their professional inadequacies by employing expensive lawyers to find technical loopholes with which to justify what has been described as the largest financial fraud ever committed.

M. W. Metcalfe.
Holco Trading,
8 Lloyd's Avenue, EC3.

Tender age of TSB applicants

From Mr J. Wheeler

Sir,—The "over 18" stipulation has for years been an outmoded relic of the past. My congratulations go to the TSB for helping to get rid of it.

I hope this letter does not seem to Mr Bear (September 22) yet another example of the vulgarity of the younger generation. I can assure him that my cheque will indeed be honoured (as long as my application is accepted).

Justin Wheeler.
J. C. M. Rose Esq's,
Eton College, Windsor.

Strasbourg

Look to the Rhine

David Marsh

STRASBOURG, THE capital of Alsace in eastern France, for centuries has played the role of sentinel at the European crossroads dividing the French and German speaking peoples.

Now the city is gazing eastwards not, as in the past, to watch out for invading armies but to try to attract a tide of investment, research funds and jobs.

At the heart of the French region with the largest amount of foreign investment, and one of the most dependent on export markets, Strasbourg is finding its exposed position in the international economy brings both discomfort and advantage.

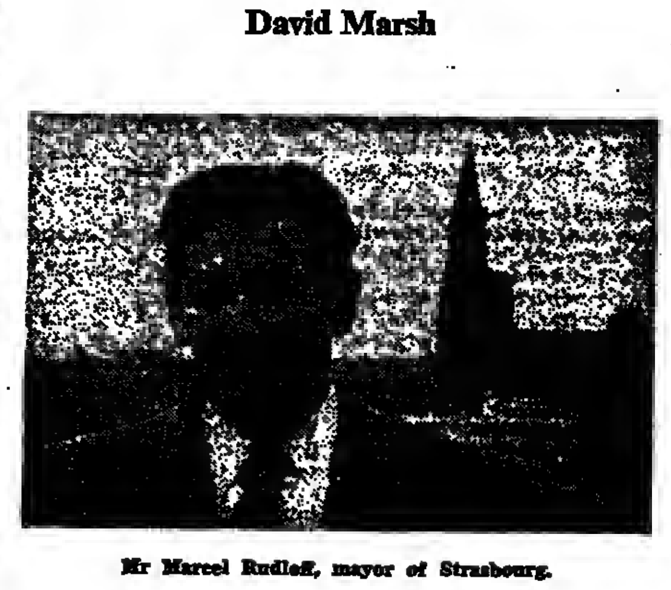
In a general reflection of how horizons are shifting in the border regions of western Europe, Strasbourg is looking increasingly towards its prosperous West German neighbour state (Land) of Baden-Wuerttemberg rather than to Paris for economic salvation.

Alsace is one of the wealthier parts of France. But it is also a region of small and medium sized companies whose activities in areas like textiles and metal working have been badly hit by the economic downturn. Unemployment in the region is 7.3 per cent—well below the national average of 10.5 per cent —but it is 8.9 per cent around Strasbourg itself.

Strasbourg's role as the seat of the European Parliament, although highly important for the city's prestige and, indirectly, for its economy—is actually resented by some locals who feel the periodic arrivals of massed ranks of MEPs distract attention from the area's more important problems.

Given little regional development support by the central government in Paris—which has preferred to concentrate its fire on highly depressed areas like neighbouring Lorraine—Alsace has a long tradition of fending for itself.

Alsace is the only French region to have its own promotional offices in both Japan and the US. "Geography and history mean that Alsace has always been orientated internationaly — towards the Rhine Valley, Baden - Wuerttemberg and Switzerland," says Mr Marcel Rudloff, the craggy centre-right lawyer who is mayor of Strasbourg as well as president of the Alsace regional council.



Mr Marcel Rudloff, mayor of Strasbourg.

The region's dual Germanic and French culture—a product not only of shifting borders after the three Franco-German wars over the past century, but also of its long adhesion in the Middle Ages to the pan German empire—provides fertile soil for cross frontier links.

"We combine the German work ethic with Latin creativity," claims Mr Rene Ulrich, head of the Strasbourg chamber of commerce and director of the Adira regional development organisation for the Lower Rhine department around Strasbourg.

The go-it-alone outward-looking spirit is part of the heritage of a region which has always had a close-knit sense of internal identity but has never been sure quite where it fitted in on the changing political map of Europe.

Sentiment that Strasbourg may not, after all, really be part of France—even though the Marseillaise was composed there in 1792, controversy still simmers over whether its incorporation into France by Louis XIV in 1681 was annexation or unification—has been fostered by a series of disappointments with central government over the years.

Indignation still smoulders over the Socialist government's decision in 1984 that a costly European X-ray synchrotron centre would be built in Grenoble—to help the Left in local elections. This went against the desire of the West Germans and flagrantly contradicted an earlier promise that the complex would come to Strasbourg.

For a mixture of historical and cultural reasons, many Alsatians profess dislike or disdain, or at best only a grudging admiration, for the Germans.

But the symbolic synchrotron setback added to Alsatians' tendency to look, in many ways, to the Rhine rather than the Seine.

"People pretend to be anti-German. But at home you will find them watching more German than French TV," says one Alsace official.

The German-style reliability of the Alsatian work-force—the area was hardly affected by the general strikes in 1968—combined with the benefit of bilingualism among the population and the region's central position for European marketing have been major factors attracting foreign investment.

Around one-third of total industrial jobs in Alsace are supplied by foreign owned companies. Two-thirds of jobs created by new companies setting up in northern Alsace over the past 30 years have come from foreign investment.

Some 40 per cent of this new employment has represented investments by German companies, including Siemens and a cluster of smaller groups. The big US companies with factories in the area include General Motors (automatic gearboxes), Eli Lilly and Dow Chemical (chemicals and pharmaceuticals), TRW and Garrett in engineering and Mars in confectionery.

Some Alsatians believe the region's reliance on foreign investments may be a source of weakness at a time of slower economic growth.

"During a long period, this was a region of small and medium businesses," says Mr Alain Howiller, editor of the thriving regional newspaper, Les Dernieres Nouvelles d'Alsace.

"Now many have been taken over, and a lot of larger companies have moved in, shifting decision-making power outside the area. We always thought we could cope by ourselves. Now this ability is beginning to fade."

Precisely to lay the groundwork for industries which will resist fierce international competition, one of Alsace's main challenges is to build up a stronger industrial high-technology base on the back of the area's strong research potential.

It has also been making a big effort to diversify sources of outside investment. The bringing of a new Sony plant to make laser disc reading equipment near Colmar—in the face of tough competition from the UK and Germany—was a major coup for the region.

The tub-thumping Mr Ulrich draws an untidy series of maps on scraps of paper to underline that Strasbourg is not only at the focal point of the European market but also at the centre of a European "innovation basin" in scientific research.

Both Mr Rudloff and Mr Ulrich are playing a leading role in driving researchers from Strasbourg's universities and laboratories — renowned particularly in areas like pharmaceuticals and lasers—into collaboration with scientific institutes on the other side of the Rhine.

A Franco-German institute for robotics, linking the universities of Strasbourg, Duisburg in North Rhine Westphalia and Karlsruhe in Baden-Wuerttemberg, has just been set up, backed by companies in both countries. This links about 25 laboratories.

High technology initiatives, of course, will provide only a slender number of jobs even in the longer term. In employment terms a bigger, albeit indirect, influence on the Alsatian economy will almost certainly come from the new car plant over the border at Rastatt announced recently by Daimler-Benz. Strasbourg's gaze is firmly turned to the east.

FINANCIAL TIMES

Tuesday September 30 1986

UK LABOUR PARTY LEADERSHIP REJECTS CALLS FOR FOREIGN EXCHANGE CONTROLS

Hattersley firm on tax scheme

BY PETER RIDDELL, POLITICAL EDITOR, IN BLACKPOOL

MR Roy Hattersley, deputy leader of Britain's opposition Labour Party and "shadow" Chancellor of the Exchequer, yesterday resisted pressure for the restoration of traditional exchange controls from the party's left wing.

Instead, he pressed his tax-based scheme which would penalise investing institutions such as pension funds and insurance companies which kept large scale portfolio investments overseas. These institutions would retain their tax advantages only if they repatriated from overseas their funds and supported the proposed British Investment Bank which Labour intends should back long-term industrial investment.

On a day when he announced that the pound was "once more in desperate trouble," Mr Hattersley told the party's annual conference in Blackpool that if Labour proposed the reintroduction of the old-style exchange controls which lasted from 1939 to 1979 there would be a flood of money out of Britain before a Labour government was elected.

He said people would quickly find ways round such controls while the new framework "will not only keep British money in Britain but will bring back billions of pounds which are now creating foreign jobs." He later made clear that this only applied to portfolio investment and not to direct business investment or personal transactions.

Mr Hattersley also repeated the pledge that unemployment would be reduced by about 1m in the first two years of a Labour government.

There has been considerable unease about the exchange control proposal, with even some on the centre/right with financial experience doubting their practicability.

During yesterday's debate the veteran left wing MP Mr Ian Mikardo said the proposal would be "as full of holes as a colander." He urged the reintroduction of statutory controls.

Similarly, Mr George Galloway, a prominent young left-wing parliamentary candidate, gave exchange controls as an example in saying that he was worried that some economic policy was being made up as Mr Hattersley went along.

These doubts reflect a wider concern among the mainstream left that Mr Hattersley's approach reflects "a long line of unacceptable economic compromises."

There has also been criticism from all sections of the party about whether Labour's economic and social policies can be financed merely by increasing taxes on the higher paid.

Mr Hattersley said yesterday that the earnings figure of £27,000 ($38,600) a year above which people would pay more income tax was a jagged or broken line, and some earning less would pay more in view of the removal of the upper limit on employees' national insurance contributions.

The conference endorsed, as expected, the expulsion of eight leading Liverpool Militants by a margin of 18 to one in a private section.

The other main issue, has been defence in view of the warnings of senior US officials of the dangers to Nato if Labour carries out its proposal to close all US nuclear bases in Britain.

Conference reports, Page 15

Renault reduces loss for half to FFr 2.5bn

By Kenneth Gooding in Paris

RENAULT, the French state-owned motor group, reduced its first half net loss to FFr 2.5bn ($372m) this year from FFr 6bn in 1985.

Mr Georges Besse, chairman, said yesterday the result was better than expected. Morale was improving throughout the company, which remained on course to make a net profit during the last quarter of 1987.

Renault's loss for 1986 as a whole should come down to about FFr 5bn but much depends on provisions which might have to be made in the second half. In 1985 the group's loss was reduced from the record FFr 12.55bn to FFr 10.9bn.

Mr Besse revealed Renault had made provisions totalling FFr 2bn in its 1985 accounts to cover the restructuring of its operations in Mexico, including the closure of its car assembly plant there.

Speaking in the run-up to the Paris Motor Show, he pointed out the group's massive FFr 60bn debt load would stabilise in 1986, the first time in 15 years it had not increased.

The French Government has put in FFr 2bn of new capital so far this year and another FFr 1bn is promised. Mr Besse said the Government had "not yet" committed itself to provide any more capital but observers expect that another FFr 3bn will be provided next year. Between 1945 and 1982 the Government put in no new capital.

Renault will also raise cash by selling more assets.

Mr Besse said Renault had cut stock levels dramatically, reduced overheads and the productivity of the car division had gone up by 25 per cent from 10.9 cars per year per employee 18 months ago to 13.6 per employee with no increase in working capital. The target – "a difficult one to achieve" – was 15 cars per employee by the end of 1987.

Renault's suppliers had been asked for similar productivity increases and the price of bought-in components had not risen for two years.

Mr Besse said group policy was that every subsidiary and every subsidiary's subsidiary must be profitable in its own right, but he did not put a timetable to that objective.

The company had more than enough car production capacity so no investment was needed for that purpose. Renault could concentrate on renewing its model range, already the youngest and widest in Europe following the introduction earlier this year of the R21 medium-sized car to replace the R18.

Renault's US associate, the 40 per cent owned American Motors (AMC), raised $300m from the sale of preferred shares on Wall Street during summer without any guarantees being given by the French group.

This, together with money from conversion of some bonds by Renault, would give AMC $300m – enough to cover the introduction next year of three new models: the Medallion, an American version of the R21; the Alpine Turbo sports car and the Renault Premiere.

THE LEX COLUMN

Light at the end of the bridge

Without getting bogged down over the proper definition of a sterling crisis, the markets seem to have decided upon a rise in UK base rates. The only question posed by gilt-edged prices, like the 11⅜ per cent rate for three month money, is whether to push for one point or two. The Bank of England made noble efforts to sit through the rising tide, presumably hoping that foreign exchange intervention would buy enough time to avoid a distasteful jump in bank interest rates. Perhaps keeping base rates down is a new method of persuading the clearing banks to rein back their lending.

Bridging finance

The promoters of Eurotunnel, now striving against much City scepticism to raise their second layer of equity, can be forgiven for casting an envious glance at the successful financing of Trafalgar's new Thames bridge at Dartford. It is naturally easier to make ends meet across this much shorter distance, and the fact that half the proposed link already exists, in the shape of a revenue-generating tunnel which Trafalgar is buying from the Government, makes it easier still to believe that the project will make an adequate return.

Investors in the bridge are in any case not being asked for real equity; the foundation of the package is loan stock yielding some 3¼ points over a reference gilt, with an extra point or so for those lenders who are prepared to allow early redemption. That could occur long before the 20 years are up, since the Government has an option to call in the concession. The option would be exercised as soon as the project has paid back its total costs, as well as the accumulated interest, including the cost of servicing £45m of debt that is being assumed with the existing tunnel.

The advantages of this arrangement to the PSBR are immediate, and the possible risks reduce to the possibility that overruns or revenue shortfalls might prolong the concession for its full 20 years, delaying the moment when toll income would revert to the Exchequer. With that safety net in place, this sounds like a type of privatisation that might survive almost any change of political colour in Whitehall.

Fiat

Last week's Euro-placing of Fiat may have converted a lot of investment banks into involuntary fund managers long of a single Italian equity; but it is hard to see that this is wholly the fault of Deutsche Bank. After all, the syndicate banks were sware that Libya was shifting the entire market and foreign-exchange risk onto the underwriters and they must have been aware of Italy's creaking settlement system.

In these circumstances, the syndicate accepted a discount that was palpably too fine. At yesterday's Fiat price and dollar/lira exchange rate, the savings shares are trading outside their fees. The fact that Deutsche and Mediobanca have managed to place most of their shares may sound unfair, but that is the reward of lead management.

It was unfortunate, but probably inevitable, that neither Deutsche Bank or its co-principals had time to see that there was no market for so much Fiat. For two years, Fiat has been the easiest point of entry for foreign investors into the Milan bull market, and most fund managers, while probably under-weight in Italy are over-weight in Fiat. The marketing of such a lump of Fiat equity was bound to lead to a run-off of Fiat through Milan.

It may be that Deutsche will manage to maintain a liquid market in Fiat dollar shares outside Italy; but it is just as likely that the opportunity cost of committing so much capital to Fiat will force the banks to brave the Milan settlement system, with predictable results for the lira share price.

Inchcape

Inchcape must have the dullest earnings and dividend record of any major UK company to have survived the last decade without being taken over. It fits that depressing background that much of the near 10 per cent rise in pre-tax profits represents a recovery from the latest mishap, which happened to be in timber-moving trucks. Yet the near doubling in motor profits was not just boring old loss elimination; it also included an extra £5m or so from the Toyota distribution business, which by rights should have been feeling the margin pressure of the rising yen.

It appears that the Japanese are prepared not just to shelter their worldwide customers from this effect, but to preserve the margins of their agents. Here is part of the reason for the near 30 per cent rise in UK profits, a particularly welcome development, given Inchcape's perennial ACT problem.

Advocates of the stock will be more inclined to play up Inchcape as a beneficiary of sterling weakness. In the first half the other side of that coin was evident: pre-tax profits were about £3m lower on translation than they would have been using the exchange rates of the first half of the previous year. At 443p up 3p the shares are on a multiple of almost 10, assuming Inchcape can come close to matching these profits in the second half. Who knows, there may even be the first dividend increase for seven years.

Federal Express to drop ZapMail

By David Owen in New York

FEDERAL EXPRESS, the Tennessee-based overnight package delivery company, is to take a $190m after-tax write-off following its decision to discontinue the ZapMail electronic document transmission service and drop its ambitious plans to sell and rent facsimile equipment.

The announcement prompted an immediate burst of activity on the stock market, with Federal Express shares rising $6¾ to $61⅞ in heavy trading.

Mr Richard Henderson, an analyst with Pershing & Co, the New York research firm, described the development as "enormously positive".

Stressing that the bulk of the charge is against assets already paid for and which will not require payment of additional funds, Mr Frederick Smith, Federal's chief executive, said that the move was necessary to ensure that the company's "total efforts" were concentrated on maintaining its leadership in the domestic industry and continuing its international expansion.

He said: "As we reviewed our plans for continuing ZapMail services, it became evident that our company would be subjected to several years of substantial losses and the project would require several hundred million dollars more investment in customer premise equipment and network capital."

He also singled out the steadily increasing cost of new and used aircraft and intensifying competition in the industry as factors underlying the write-off decision.

ZapMail has been a big drain on the company's profitability since its launch in the summer of 1984. Operating losses from the service totalled $38.4m in the first quarter of fiscal 1987, compared with $26.5m a year earlier. Total operating income declined to $51m from $54m during the same period.

The announcement marks an abrupt U-turn from Federal's previously stated intentions to resume marketing ZapMail on October 1. The company stopped selling the service last spring in order to correct problems with its "day-to-day consistency."

Mr James Dowling, an analyst with New York broker Furman Selz, said the announcement "came as a great surprise given that the company had announced a new marketing strategy for ZapMail only a few weeks ago." He estimated that ZapMail had been costing the company up to $150m a year in operating losses.

Meanwhile, Mr Smith emphasised, the company is still hoping to offer a digital transmission service capable of being accessed by customers from their own office equipment.

ITT and CGE still unable to find West German partner

BY PETER BRUCE IN BONN

EFFORTS to find a major West German partner for the proposed merger of ITT's European operations with CGE, the big French telecommunications equipment producer, have run into serious trouble.

Nixdorf, the computer manufacturer, has turned down an ITT/CGE offer to take a minority stake in the venture. It is understood that Bosch, the motor electronics group, has signalled its lack of interest as well. ITT and CGE badly need a German partner to help to guarantee access to West Germany's heavily protected telecommunications market.

The fact that ITT's biggest European subsidiary, Standard Elektrik Lorenz (SEL) is based in Stuttgart is apparently not considered sufficient to satisfy the politics of selling telecoms equipment in West Germany.

These difficulties have coincided with a particularly turbulent period in the relationships between the French and West German telecommunications industries.

The French have become irritated by Bonn apparently trying to push Siemens as a purchaser of CGE's smaller rival, CGCT. Efforts by both sides' postal ministries to design a common telephone are after two years, close to breakdown, and the French have begun to complain loudly that entry on to the German videotext market is being blocked by Bonn.

Dr Horst Nasko, the head of Nixdorf's fledgling telecommunications division, said in Munich last week that Nixdorf was still being pressed to join the venture, which will be based in Paris and probably have French leadership.

"We looked at it in detail," Dr Nasko said, "but CGE and SEL will have a difficult time putting it together," Dr Nasko said be presumed the prospective partners were interested in Nixdorf's computer expertise, which they presently do not command.

He also said Nixdorf could "live without" System 12, the digital public telephone switch that SEL has contracts to sell in West Germany.

System 12 is a rival to a switch developed by Siemens, and both ITT and CGE had been hoping to persuade German groups that joining them would mean winning a slice of digital switch contracts likely to be placed by the Bundespost.

System 12, Nixdorf believes, will also win a share in the French market, although CGE has its own switch, but "being a minority partner is a problem," Dr Basko said. "We are not used to it."

Bosch is believed to have gone cold on taking a stake in the merger for much the same reasons. The stake being offered by the French is not attractive, and even less so for some of the prospective German partners is the prospect of working under French management. Bosch tried very hard to buy control of SEL itself before ITT agreed to sell the European businesses to CGE.

Early French poll unlikely after weak Socialist by-election result

BY DAVID HOUSEGO IN PARIS

THE LACKLUSTRE performance of the French Socialist party in the Toulouse by-election at the weekend appears to rule out the possibility of President François Mitterrand calling an early poll in advance of the presidential elections due in May 1988.

The Socialists did marginally less well in Sunday's election – obtaining 37 per cent of the vote – than they did during the March election. The right wing alliance of the centrist UDF and the neo-Gaullist RPR of Mr Jacques Chirac improved its performance by 2 percentage points, obtaining 45.9 per cent of the vote.

The by-election was the first major test of public opinion in France since March. President Mitterrand had hoped that with Mr Chirac's Government seven months into its administration, voters would start to show their disillusionment with it.

The result strengthens Mr Chirac's hand – coinciding as it does with a strengthening of his support in the Senate as a result of Sunday's indirect Senate elections. The RPR said yesterday that the Toulouse result was "a sign of encouragement" from the electorate.

Though President Mitterrand has been increasingly moving away from the idea of calling an early poll, the swing to the right as registered on Sunday further closes the option to him. In addition, it weakens his hand in political bargaining with Mr Chirac.

In the day-to-day running of government under "cohabitation," President Mitterrand has increasingly seen power slip through his hands. He has also found over the past fortnight that the forging of a national unity against terrorism has most benefited the Prime Minister.

Mr Mitterrand had hoped that if the Socialists improved their rating by obtaining close to 40 per cent of the vote, then he would have been in a stronger position to challenge Mr Chirac.

The biggest disappointment for the Socialists was the high level of abstention on Sunday – more than 30 per cent of the electorate

Daniloff flies out

Continued from Page 1

sa jet that brought him to Frankfurt.

"It's wonderful to be in the West," he told a group of people awaiting his arrival. After the aircraft taxied along the tarmac to the waiting crowd, Mr Richard Burt, US ambassador in Bonn, sprinted up the gangway to meet Mr Daniloff.

"The case was fabricated against me for the purpose of giving the Soviet Union some leverage," he said.

Mr Daniloff added that he did not know the details of the arrangement under which he had been allowed to leave Moscow.

British bid to resist higher rates

Continued from Page 1

growth." The rapid growth of the money supply in both West Germany and other major industrial countries pointed to a cautious approach on interest rates.

West German officials refused to specify the extent of the Bundesbank's intervention in the markets yesterday, including that they were prepared to play a "cat-and-mouse" game with the foreign exchanges. "We are not commenting at the moment. That is part of the tactic too," one senior official said.

US officials were similary unwilling to express any view on the value of the dollar, suggesting that for the time being at least, they have agreed to stop talking the currency down.

European central bankers appear to be hoping that the threat of further intervention both by them and the Bank of Japan will discourage massive speculation against the dollar.

There is some irritation, however, that Bank of England intervention to support sterling is operating against the general consensus that Europe should seek to stabilise the US currency. Other central banks have suggested that the British authorities should concentrate intervention in the sterling/D-Mark market, but the Bank of England believes that that market is not large enough to allow it to operate effectively.

French officials at the IMF meetings said that the recent turbulence in currency markets had increased support for their long-standing proposal that governments should set a series of "reference zones" for major currencies.

Mr Michel Camdessus, Governor of the Bank of France, said that the spirit of discussions among central bankers and finance ministers was increasingly favouring such a system. He acknowledged, however, that there were still significant objections to the proposals from other governments.

The policymaking Interim Committee, meanwhile, agreed that the Fund should seek to develop further its formulation of indicators of economic policy and performance in industrial nations in an attempt to ensure greater consistency between national approaches.

Mr Jacques de Larosiere, IMF managing director, said that the indicators were a useful tool to optimise the performance of leading economies.

Markets test Bank of England's resolve

Continued from Page 1

The dollar itself lost more than 2 pfg in London in the wake of the weekend's inconclusive meeting of finance ministers of the Group of Five, closing at DM 2.025.

Yesterday, as on Friday, the Bank of England supplied more than £700m of liquidity to the money markets by buying bills of exchange from the discount houses in an early round of assistance. This was more than enough to relieve the market's cash shortage, and reduced short-term pressure on rates.

While the Bank yesterday left its rates structure unchanged, some bills were bought at higher interest rates than last week. Discussions between the discount houses and the Bank were lengthy, and dealers said several houses had offered bills at considerably higher rates, but had been persuaded to withdraw these offers.

Discount houses anticipating a rise in interest rates are keen to sell on as many of their stock of bills as possible, rather than being stuck with a portfolio of bills yielding less than the new market rate.

Gilt-edged Government bond prices also fell sharply yesterday. Longer maturities of gilts lost up to 2¾ points in London, and in New York US Treasury bonds also fell in early trading.

The equity market did not escape, and the FT Ordinary index lost 25.8 points to 1,212.6. New York share prices were also sharply lower. At the close the Dow Jones industrial average was down 14.49 at 1,755.20.

World Weather

Readings at mid-day yesterday:
C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
Tuesday September 30 1986

Quaker to buy Anderson, Clayton

By David Owen in New York

QUAKER OATS, the Chicago food company, has agreed to acquire Anderson, Clayton, the Houston food processor, for $66 a share or an indicated value of $805m.

The Quaker bid topped a $64-a-share offer made last week by St Louis-based Ralston Purina, one of its biggest competitors.

Quaker, which disclosed last week that it had acquired a 23 per cent stake to the Texas company, raised its interest to a controlling 53 per cent by arranging to purchase 3.78m shares from members of the Clayton family group over the weekend.

Under the acquisition agreement, Quaker will promptly make a cash offer of $66 a share for all remaining Anderson, Clayton stock. The news was quickly reflected on Wall Street where Anderson, Clayton shares dropped $4¼ by mid-morning to $65¾. Shares of Quaker Oats also fell by $1⅛ to $71¼ while Ralston Purina shares dropped $⅝ to $82¾.

The deal turns the tables on Anderson, Clayton's February 1985 attempt to buy Quaker's petfood brands – an overture which the Chicago company rejected. The merger will create the second-biggest US pet food company.

● Nu Homes has begun a tender offer for all the outstanding common shares of Ryan Homes at $45 a share, AP-DJ reports.

It has also begun litigation to render Ryan's "poison pill" stock purchase rights agreement null and void.

The tender offer is contingent on obtaining sufficient financing, on receiving at least 51 per cent of Ryan Homes' common stock and on Ryan's board redeeming the stock purchase rights or Nu Homes otherwise being satisfied that the rights are null and void.

Comsat agrees $2.4bn merger with Contel

BY ANATOLE KALETSKY IN NEW YORK

COMSAT, the leading US operator of communications satellites, is taking over Contel Corporation, a major independent telephone company based in Atlanta. The $2.4bn deal will create a significant new international force in telecommunications industries.

The agreed merger, which was announced yesterday by the boards of the two companies, involves an exchange of stock, with 0.94 new Comsat shares being issued for each share in Contel. The resulting company, which will continue to be called Communications Satellite Corporation, Comsat for short, will be nearly four times the size of the current Comsat which had operating income of $104m on revenues of $459m in 1985.

Wall Street estimates suggest that after-tax profits of Contel and Comsat should be around $305m on revenues of roughly $3.5bn this year.

The new company will cover a broad spread of telecommunications activities. Contel, which used to be called Continental Telephone and was the third-largest independent supplier of telephone services in the US before the breakup of the Bell System, has more than 2m residential and business telephone subscribers, mainly to small rural communities spread across 30 states.

It also operates cellular telephone networks in major cities including Washington and Los Angeles and provides strategically important secure switching services for the US Defence Department and Nato.

Earlier this year, in pursuit of its strategy of reducing dependence on the regulated telephone business, Contel acquired IPC Communications, a supplier of voice links to financial companies. It subsequently bought the government systems division of Western Union and became one of the largest providers of specialised transmission and switching services telecommunications for the Government and business customers.

Comsat, which is the sole US company authorised to operate international communications satellites, owns 23 per cent of Intelsat and Inmarsat, the international consortia which operate the worldwide satellite communications networks.

Comsat leases satellite circuits to US international telephone carriers and has recently expanded into the provision of satellite broadcasting systems. It also designs and manufactures telecommunications equipment.

Versatile in talks to sell off its Canadian shipyard operations

BY ROBERT GIBBENS IN MONTREAL

VERSATILE Corporation, which is unable to complete the sale of its Winnipeg-based farm tractor subsidiary, is negotiating to sell its eastern Canada shipbuilding operations.

Vancouver-based Versatile failed to pull out of the 1982-83 recession because of a deepening crisis in shipbuilding and declining demand for heavy industrial and nuclear components and farm equipment.

It met unexpected problems in selling its profitable tractor subsidiary to Deere of the US and has been facing rising losses.

After the company met lenders and debenture holders in Toronto last week, Mr Peter Paul Saunders, chairman, was in Montreal at the weekend negotiating the possible sale of the Davie Shipyard in Quebec City and the Vickers ship-repair and heavy engineering business to Montreal to Marine Industries, which is indirectly controlled by the Quebec government.

Marine is 40 per cent owned by Alsthom Atlantique of France and has made turbine-generators based on Alsthom technology for 20 years.

It makes heavy industrial products and has gone out of railcars but is trying to remain in shipbuilding.

Versatile is Canada's largest shipbuilder, with two yards on the West Coast, besides the Davie Yard in Quebec City, which was formerly owned by Dome Petroleum.

Versatile has failed to post a performance bond for construction of a second C$136m (US$94m) ferry at Davie, and the yard has few orders.

Versatile posted a loss of almost C$40m in the first half and suspended interest payments on C$15.8m of debentures.

● Consolidated-Bathurst is going ahead with a joint venture to buy a British Columbia pulp mill and develop paper and packaging operations in China.

Power Consolidated (China) Pulp Inc is owned 25 per cent by Consolidated-Bathurst, 25 per cent by its parent Power Corporation of Canada, and 50 per cent by China International Trust and Investment Corporation.

Asea to get stake in EB rights

By Sara Webb in Stockholm

ELEKTRISK Bureau, the Norwegian electronics and telecommunications concern, is to make a private issue of shares restricted to Asea, the Swedish electrical engineering group.

The share issue – which is still subject to approval from the authorities – will give Asea a 20 per cent holding in EB and represents a capital injection of NKr 371m ($50.4m).

It follows an earlier announcement that Elektrisk Bureau would allow present shareholders to subscribe for one new share for every six shares held. Altogether, the two share issues will inject about NKr 525m of new capital into the EB group.

The Norwegian company Investa will remain the majority shareholder and says it intends to hold at least 51 per cent of the shares.

Elektrisk Bureau is to acquire Elektro-Union, an electrical equipment and technical services company, with effect from the beginning of next year.

European car sales 'to rise'

By Kenneth Gooding in Paris

WEST EUROPEAN car sales are headed for a 7 per cent rise to 11.3m this year – the biggest annual increase ever recorded, Mr Ferdinand Beickler, president of General Motors Europe, said yesterday.

The positive trend would continue in 1987, with registrations reaching 11.4m.

In the longer term, GM expects European sales to grow at between 1 and 2 per cent a year "which would mean a new-car market of about 12m in 1990," Mr Beickler said, ahead of the Paris Motor Show.

Mentor liquidators raise debt estimate to $644m

BY ROGER SCOTTON IN BERMUDA

MENTOR INSURANCE, the failed Bermuda-based subsidiary of Ocean Drilling and Exploration of New Orleans, is in considerably worse financial shape than had first been thought over a year ago when the Bermuda Government won a compulsory winding-up order against it.

Mentor was one of about 1,000 companies that make up the world's largest "captive" insurance market. Captives are insurance companies formed by non-insurance groups to insure or reinsure the parent company's risk, but over recent years have tried to expand into insuring other risks.

The order was granted in June 1985 after Mentor auditors said they were unable to approve the company's statutory financial returns for the 1984 financial year.

Bermuda's insurance authorities subsequently found that Mentor's solvency margin was well below the legal level required to support net premiums of about $80m and that its New Orleans-based parent had no intention of injecting fresh capital. Unsecured creditors were then thought to be owed about $178.6m.

The court-appointed liquidators now say that the failed company's gross ultimate liabilities are likely to be in the region of $644.4m – almost $466m higher than the original estimate drawn up in July last year. Of this $644.4m, a total of $577.8m is accounted for by unpaid claims from insureds.

The liquidators have told Mentor's 551 creditors, who are mostly American customers, insurance brokers and banks, that these debts cannot be expected to mature before the year 2004.

However, creditors may not have to wait 18 years before they see at least some of their money. The report to creditors, released earlier this month by joint liquidators Mr Charles Kempe and Mr Michael Arnold, says that a preliminary cash distribution is planned

Mr Kempe said that the earlier estimate of $178.6m for unpaid liabilities was based on Mentor's reported premiums and losses as a going concern.

Summarising outstanding legal action, the report makes clear that Messrs Kempe and Arnold intend to pursue existing litigation, including the suit they began in March seeking damages of up to $500m against Ocean Drilling, its former chief executive, and nine other defendants.

Ocean Drilling said last week that it had no comment on the litigation. However, in its 1985 annual report the company made clear it intends to "defend itself vigorously."

TSB share ballot will exclude half of public applicants

BY RICHARD TOMKINS IN LONDON

THE TSB Group, the UK banking group, was yesterday braced for criticism that its £1.5bn ($2.1bn) offer for sale had created 2m disappointed investors after announcing that only half the non-preferential applicants would receive any shares.

The TSB confirmed that the offer for sale had been eight times oversubscribed with applications worth £5.6bn ($7.8bn) chasing 1.36bn shares partly paid at 50p each. There were 3.7m public applications and 1.3m preferential ones, making a total of 5m.

Applications from the public have been put through a ballot which carried a 50 per cent chance of success. The results will not be sent out until Thursday, October 9, because of the logistical problems of preparing letters of acceptance or rejection.

Sir John Read, the TSB chairman, said he would have preferred to give shares to higher proportion of applicants but the combined capacity of the receiving banks was limited to handling about 3m allocations within a reasonable time.

All the preferential applicants – customers and employees – will receive an allocation, and customers who applied for up to 400 will receive the full number sought.

Cheques from unsuccessful applicants will be returned uncashed.

The allocation has been heavily geared towards the small investor. Applicants for up to 600 will receive 300; applicants for 800 get 350; and applicants for 1,000 to 2,000 get 400. The allocation then tails off until those applying for 1.05m to 3m shares receive just 10,000 each.

The 145 applicants who asked for more than 3m shares will get none at all on the assumption that the profits to be made on a small allocation would not cover the costs of obtaining the money to cover the application.

Preferential applicants do slightly better: no customer will receive less than 10 per cent of the number of shares applied for, and employees receive at least 50 per cent.

Prior Harwin, the licensed dealer, was yesterday quoting a price of 85p/89p for the TSB shares.

INTL. COMPANIES

Koor set to acquire aero engine maker

BY JUDITH MALTZ IN TEL AVIV

KOOR INDUSTRIES, Israel's largest conglomerate, is on the verge of taking over Bet Shemesh Engines, the troubled state-owned aero engines manufacturer.

The takeover, expected to be concluded within a fortnight, is another example of the coalition Government's on-off programme to privatise state assets.

Details of the sale of the Government's 58 per cent holding in Bet Shemesh Engines are still to be finalised. But Koor will find itself with an enterprise saddled with debt and short of firm orders. In its last financial year to March 1986, the company, which has accumulated US$60m in debt, lost US$20m on sales of only US$18m.

Pratt & Whitney, the leading US aeroengine builder, holds a 40 per cent stake in Bet Shemesh. Its refusal to consider the sale of the state holding to Israel Aircraft Industries is believed to have tipped the negotiating balance in favour of Koor.

Bet Shemesh Engines is the designated local manufacturer of the Pratt & Whitney 1120 engine, developed for Israel's new Lavi fighter project, to which hopes for its recovery are closely tied.

Mr Danny Katz, the company's assistant general manager, said that once the uncertainty over its future had been dispelled, Bet Shemesh Engines would be well placed to boost its earnings through the sale of Lavi-developed engine components to other clients.

According to Mr Zvi Tropp, economic adviser to the Defence Ministry and the state's chief negotiator in the sale, Koor was favoured over four other contenders because of its established good working relations with the US aerospace group and its sound financial structure.

Koor is a subsidiary of Hevrat Ha'ovdim, the industrial holding company of the Histadrut Labour Federation, and already has related interests in defence electronics and military equipment. With the change in ownership, and expected subsequent sweeping management changes, Koor and Defence Ministry officials believe the company has a good chance of getting "back on its feet."

The company at present produces under licence the M-6 engine for Israel's Fuga trainer, a version of the French Magister, and the Pratt & Whitney J-79 powering the Kfir fighter-bomber. It also manufactures engine sub-assemblies and undertakes repair work.

Pao steps down from top posts

SIR YUE-KONG PAO, a former bank clerk who built a shipping and property empire in Hong Kong, retired yesterday from the top posts of his two flagship public companies, AP-DJ reports from Hong Kong.

Sir Y-K, 67, stepped down as chairman and a director of Hongkong & Kowloon Wharf & Godown, the property and trading conglomerate, and of World International (Holdings), the holding company for his public shipping and investment interests.

One of Sir Y-K's two sons-in-law, who have long served as senior operating officers of his companies, was appointed to succeed him. Mr Peter Woo will become chairman and retain his current title of managing director of Wharf and will become chairman of World International.

Mr Helmut Sohmen, Sir Y-K's other son-in-law, has been appointed chairman of Worldwide Shipping Agency, the group's large shipping company in Hong Kong.

Mr Woo told Wharf's annual general meeting yesterday that Sir Y-K had decided to retire this year because "he felt it was an appropriate time to make a change." He said the retirement had nothing to do with Sir Y-K's recent acquisition of nearly 15 per cent of Standard Chartered, the UK banking group, of which he is now deputy chairman and Mr Woo is a director.

Wharf shareholders voted to retain Sir Y-K as "honorary chairman" of the company, and World International said it would appoint him to the same position.

In another vote, Wharf shareholders decided to change the company's name to Wharf (Holdings).

Rand Mines buys Vansa stake in platinum move

BY JIM JONES IN JOHANNESBURG

RAND MINES has followed Gold Fields of South Africa (GFSA) to become the second South African mining house to announce new platinum development plans this year. The company has agreed to acquire a 42 per cent interest in Vansa Vanadium, which is currently developing a vanadium mine on the Kennedy's Vale farm in the eastern Transvaal.

It has also acquired options to an eventual 60 per cent interest in Rhodium Reefs, Vansa's wholly-owned subsidiary, which recently completed exploratory drilling of platinum-bearing Merensky and UG2 reefs on Kennedy's Vale.

At present Vansa is controlled by East Rand Consolidated, a small London-based mining investment company, which has decided not to contribute additional capital to Vansa's development.

Rand Mines has transferred its Kinterveld chrome mine to Vansa in exchange for 14.5m new ordinary shares in Vansa and 2m options to acquire new Vansa shares at an exercise price of R3 per share. This will give Rand Mines 42 per cent of Vansa.

UIC purchases holding in Jason Mining

By Steven Butler in Singapore

UNITED INDUSTRIAL Corporation (UIC), the Singapore chemical, property and investment concern, has deepened its involvement in the gold mining industry with an announcement yesterday that it has acquired a S$5.9m (US$2.7m) 13.7 per cent interest in Jason Mining, the Australian gold mining company.

The announcement follows by three weeks a UIC acquisition of a A$5.12m (US$3.2m) 10 per cent stake in Pelsart Resources, another gold mining company with extensive tracts in Indonesia.

First profit at Goodman Fielder

By Robert Kennedy in Sydney

GOODMAN FIELDER, the Australasian food conglomerate, has reported a profit of A$19.1m (US$12m) in the three months to June 30 — its first quarter of operations in its present form.

Goodman Fielder was formed on March 31 by the merger of the Goodman Group of New Zealand and Allied Mills and Fielder Gillespie Davis, two leading players in the Australian food industry.

The company warned that the June quarter result should not merely be multiplied by four to try to gauge how the new group would perform in its first full year.

UMW deeper in loss for half-year but sees upturn

BY WONG SULONG IN KUALA LUMPUR

UMW CORPORATION (formerly United Motor Works), the Malaysian heavy equipment and car distributor, has reported a pre-tax loss of 22.3m ringgit (US$8.57m) for the six months to June on a turnover which fell 31 per cent to 346m ringgit.

Although the loss was higher than the 15.4m ringgit deficit in the same period last year, it was substantially lower than the 46.8m ringgit loss in the second half of 1985.

The loss after tax and minorities was 28.9m ringgit compared with 23.7m ringgit.

UMW sounded an optimistic note for the second half, saying its heavy equipment companies "are expected to make further improvements in the light of a discernible upturn in the demand for heavy equipment and spares as well as continuing cost-cutting measures."

Improving timber prices in recent months, and the return of political stability to Sabah—Malaysia's biggest timber exporting state — is expected to create demand for logging equipment.

However, the situation is not expected to improve in the motor distribution business. UMW, which distributes Toyota cars, as well as the Malaysian car, the Proton Saga, said the sustained strength of the Japanese yen would continue to mean high costs

INTERNATIONAL COMPANIES and FINANCE

Fives-Lille to sell electronics holding

By David Housego in Paris

FIVES-LILLE, the holding group for Fives-Cail Babcock, the French heavy equipment manufacturers, is abandoning its diversification into the retailing of electronic goods.

Fives-Lille has announced that it was selling its 68 per cent stake in Nasa Electronique, the retail electronics chain after losses of FFr 70m during the final 10 months of 1985. Fives-Lille had purchased Nasa, which owns 125 outlets selling computers and consumer electronics goods, in 1983 as a way of breaking out of the flagging heavy equipment market.

In July Fives-Lille reported profits of FFr 87m for the year to end-1985 but said at the time that Nasa's results were not included in the figures, though provisions for losses had been made. Fives-Lille, which pumped an additional FFr 50m into Nasa in January, is expected to have incurred substantially higher losses on Nasa's activities this year.

The setback at Fives-Lille has come shortly after it succeeded in restructuring its mainline business, the manufacture of plant equipment including sugar refineries, boilers and cement plants. In 1984 it made a bid to take over Creusot-Loire, the French heavy engineering group which was then filing far bankruptcy.

Nasa Electronique has been purchased by Daniel Lebard Management Development, a financial consulting group.

HICB reports HK$6.48m loss but forecasts return to profit

BY KEVIN HAMLIN IN HONG KONG

HONGKONG Industrial and Commercial Bank (HICB), in which the Hong Kong Government took a controlling interest following the collapse and subsequent rescue of its parent, Overseas Trust Bank, yesterday announced a loss of HK$6.48m (US$0.83m) for the year ended June 1986, compared with the previous year's HK$343.18m deficit.

Mr David Nendick, the bank's chairman and Hong Kong's Secretary for Monetary Affairs, said HICB recorded a profit of HK$4.34m for the final six months of the year, compared with a loss of HK$10.82m for the first half. He forecast a return to profit during the current year.

Mr Nandick said: "The bank's non-performing debts have been brought under control and advances have increased overall."

He edded thet confidence in the bank had returned and attributed the financial improvements to general growth in deposit taking and lending. Mr Nendick said that both had seen "modest" growth.

However, funds from current, deposit and other accounts declined by around 13 per cent to HK$1.31bn during the year due to a reduction in "non-performing" deposits, which had previously been taken at high rates of interest.

The Hong Kong Government has consistently stated that it wants to privatise the three banks under its control (Overseas Trust Bank and Hang Lung Bank are the others) at the earliest appropriete time. Mr Nendick yesterday said: "The results announced today do show that we have made very substantial progress in rehabilitating the bank and putting it in a fit state to be privatised."

He added that there had been a lot of tentative interest from potential buyers during the last year, but added that a decision on when to sell would depend on the attitude in the market, and on the bank's other shareholders. The Hong Kong Government holds 83.5 per cent of HICB.

Mr Nendick said the Government would want details of the plans potential buyers had for the bank and said: "There must be no question of a repetition of 1985's collapse."

Mr Nendick expressed optimism that small banks can continue to operate profitably in the competitive Hong Kong market, but stressed that they must find a niche and provide services tailored to the needs of the customer.

In September 1985 the Hong Kong Government injected HK$404.20m into the bank through a rights issue and also reconstructed its capital. The moves enabled HICB to dilute losses and meet minimum capital requirements.

The bank stated yesterday that no dividend will be paid to shareholders until accumulated losses, which now stand at HK$121.34m, have been eliminated.

EMS-Chemie plans rights issue

BY JOHN WICKS IN ZURICH

EMS-CHEMIE, the Swiss plastics and fibre group, plan a two-stage funding operation and say the dividend for the year ended April 1986 is to be increased from 7 per cent to 9 per cent.

The company is to raise SFr 26m ($15.65m) through a rights issue in bearer shares. A second financing move will involve a warrants issue. The two operations should provide additional funds of at least SFr 50m, EMS said.

Dr Christoph Blocher, the chairman indicated that the proceeds would be used to reduce debt, improve liquidity and provide extra funds for any future acquisition.

Consolidated turnover rose by 34 per cent to SwFr 522.8m last year of which SwFr 81m was accounted for by the takeover of Togo, the automotive-chemicals concern. Group net profits rose from SwFr 7m to SwFr 10m.

Dr Blocher said results for the current business year should be "good, but not quite up to last year's levels."

Business continues favourable in major markets. However, exchange rate developments meant that Swiss franc sales were 4 per cent lower in the first four months.

Kloeckner to raise DM 250m

By Andrew Fisher in Frankfurt

KLOECKNER UND CO, the West German steel trading and engineering group, intends to raise DM 250m ($125m) through an issue of profit-sharing certificates and a Swiss franc loan.

The Duisburg-based company, which said turnover fell by 15 per cent to DM 5.8bn in the first half due to the fall in the dollar and lower commodity and energy prices, intends to issue participation certificates (Genuss-scheine) with a nominal value of DM 100.

The actual price of the certificates, to be issued in DM 100 units, will be fixed on October 13. But the price is expected to be DM 140 each, stock market sources said, making a total of DM 140m to be raised by the issue.

Klöeckner is also raising SFr 75m (DM 93m) through a Swiss franc loan to be raised at the end of October. The duration is likely to be between 10 and 12 years with an interest rate of ebout 5 per cent.

Last year, the company raised $65m (DM 130m) in short-term Euronotes, the first West German company to do so. The Swiss franc loan will be raised through e Dutch subsidiary, Klöeckner und Co Financial Services.

Kloeckner said profits of the domestic company would be slightly lower this year as e result of the drop in turnover, though the actual volume of sales was higher. It does not release world profits.

Last year, world group revenue, incuding non-consolidated foreign subsidiaries, was DM 13.1bn against DM 12.7bn. Net profits of the domestic group were DM 41m, unchanged from 1984.

Saint-Gobain reports first-half sales up 20%

SAINT-GOBAIN said yesterday that its consolidated revenue for the first half of 1986 rose to FFr 37.294bn ($5.56bn), up 20 per cent from FFr 31.027bn in the corresponding previous period, AP-DJ reports from Paris.

The state-controlled glass and building materials group noted, however, that the sales figure was boosted by the integration of Société Générale d'Entreprises, its British-based Stanton Unit and its Norwegian Gullfiber Isolar unit into Saint-Gobain's consolidated accounts for the first time.

After adjustment for the changes in group structure, consolidated revenue showed e 10.9 per cent gain on the first half of 1985.

Saint-Gobain said that the strongest first-half sales growth was posted by its glass operations, where turnover rose 19.2 per cent to FFr 4.78bn. Sales by its pipe division were up 16.6 per cent from a year earlier at FFr 5.218bn while revenue from its business and services division rose 16.6 per cent to FFr 10.497bn.

Saint Gobain has not yet released profit figures for the first half. In 1985 the group earned FFr.753m on consolidated turnover of FFr.67.888.

The group has said that earnings could rise as high as FFr 1.15bn this year on consolidated turnover of FFr 76bn.

Saint-Gobain is scheduled to lead off the French Government's privatisation of 65 state-sector companies over the next five years.

A precise timetable for Saint-Gobain's sale has not yet been set although analysts expect it to take place in December.

● Pernod-Ricard has announced that its consolidated operating profit rose to FFr 470.3m in the first half of 1986, up 14 per cent from FFr 412.4m in the corresponding year-earlier period.

The French beverage group said that the earnings gain came on a 32 per cent revenue rise to FFr 4.9bn from FFr 3.7bn in the first half of 1985.

Contributing to the revenue jump were strong domestic demand as well as the integration of Société des Vins de France and the Italian-based Ramazzotti spirits company into Pernod's consolidated accounts for the first time.

Pernod noted particularly strong demand during the summer and predicted that operating profits for the whole year would be up between 10 per cent and 15 per cent if the strong sales trend continued through the fourth quarter.

DRAWING OF BONDS

Japanese Government 6 per cent Sterling Loan 1983/88

The Bank of Tokyo, Ltd., the Paying Agents in London for the Bonds of the above Issue give notice in accordance with the instructions of the Japanese Government that the Bonds enumerated hereunder were drawn for the Sinking Fund on the 16th September, 1986 for redemption on the 31st December, 1986.

The Drawing was made at the Office of The Bank of Tokyo, Ltd., 20/24 Moorgate, London, EC2R 6DH in the presence of Hiroshi Nakajima, representative of The Bank of Japan as agent of the Japanese Government and John Derek Gilbert Saul, Notary Public of this city, of the firm Cheeswright, Murly & Co. The Bonds then drawn will be redeemed on the 31st December, 1986, at The Bank of Tokyo, Ltd., 20/24 Moorgate, London, EC2R 6DH.

Bonds of £1,000

14085	14138	14154	14220	14265	14349	14378	14535	14539
14568	14575	14580	14675	14726	14740	14900	14996	15021
15043	15062	15066	15078	15173	15220	15261	15262	15281
15294	15351	15361	15399	15455	15466	15608	15620	15720
15752	15769	15857	15859	15872	15942	16068	16098	16104
16119	16141	16142	16201	16221	16277	16307	16520	16523
16608	16625	16674	16737	16742	16746	16808	16896	16967
17098	17136	17169						

Bonds of £500

12914	12985	13001	13050	13110	13126	13137	13189	13191
13267	13288	13348	13412	13413	13444	13447	13474	13494
13509	13596	13617	13640	13675	13715	13720	13735	13857
13944	14002	14009	14033	14036				

Bonds of £100

00026	00027	00037	00165	00245	00259	00269	00274	00284
00307	00335	00343	00352	00360	00361	00365	00552	00578
00593	00603	00611	00794	00812	00828	00831	00833	00834
00890	00918	00930	00934	00944	01071	01084	01117	01149
01176	01195	01223	01248	01286	01354	01393	01394	01410
01582	01583	01659	01705	01729	01733	01749	01755	01877
01898	01911	02048	02069	02153	02209	02296	02297	02323
02440	02451	02476	02525	02530	02531	02535	02622	02771
02830	02877	02879	02916	03061	03147	03148	03161	03186
03289	03308	03309	03317	03390	03416	03423	03478	03509
03510	03524	03543	03545	03559	03575	03638	03685	03786
03821	03822	03825	03826	03865	03906	03934	03935	03937
03971	04132	04157	04162	04169	04216	04332	04364	04407
04408	04409	04543	04584	04616	04674	04748	04947	04974
05095	05144	05262	05274	05278	05300	05304	05305	05314
05331	05337	05348	05364	05383	05384	05470	05536	05801
05941	06028	06050	06174	06216	06319	06348	06375	06399
06407	06414	06456	06460	06707	06714	06715	06744	06758
06890	06934	06972	06988	07040	07094	07109	07125	07184
07214	07235	07242	07256	07302	07367	07388	07416	07480
07526	07548	07549	07556	07574	07575	07609	07611	07622
07623	07637	07666	07669	07740	07744	07746	07817	07847
07949	08075	08144	08212	08226	08259	08388	08515	08560
08613	08636	08650	08661	08785	08786	08797	08810	08819
08845	08850	08857	08876	08880	08882	08883	08895	08913
08935	08981	09010	09020	09022	09023	09074	09161	09276
09379	09388	09401	09454	09466	09633	09707	09735	09760
09762	09792	09903	09905	09909	09976	09985	09990	10004
10020	10039	10043	10110	10117	10122	10124	10126	10145
10148	10163	10190	10194	10230	10241	10309	10318	10370
10376	10461	10515	10536	10651	10654	10665	10672	10676
10819	10820	11067	11127	11128	11139	11235	11329	11333
11425	11444	11445	11504	11723	11726	11730	11731	11736
11762	11805	11825	11831	11833	11854	11872	11918	11926
11968	11970	11996	12003	12016	12125	12157	12226	12246
12261	12287	12331	12348	12367	12380	12387	12407	12435
12452	12453	12505	12609	12617	12649	12650	12654	12725
12729	12736	12746	12765	12809	12840	12845	12869	

Bonds presented for Redemption must be left for examination five clear days before payment.

Drawn Bonds will cease to bear interest from the date of redemption.

Drawn Bonds will be payable in Sterling at par. The Drawn Bonds must be presented with all the unmatured coupons attached, namely Coupon Nos. 47 to 50 bearing due dates between 30th June, 1987 and 31st December, 1988 both dates inclusive. The sterling face amount of any such coupons which may be missing from the Drawn Bonds will be deducted from the amount of the principal payable to the holder.

Coupons maturing on the 31st December, 1986 and prior thereto should be detached and surrendered for payment in the usual manner.

Dated 30th September, 1986.

September 1986 This announcement appears as a matter of record only.

KB

Kredietbank N.V.
London Branch
Licensed Deposit-Taker

GBP 100 Million
Euro-Certificate of Deposit Programme
available in GBP, USD and ECU

Sole Dealer

Lloyds Merchant Bank

U.S. $75,000,000

GZ

Girozentrale und Bank der österreichischen Sparkassen Aktiengesellschaft

Floating Rate Subordinated Notes Due 1991

Interest Rate	6 5/16% per annum
Interest Period	29th September 1986 29th December 1986
Interest Amount per U.S. $1,000 Note due 29th December 1986	U.S. $15.96

Credit Suisse First Boston Limited
Agent Bank

U.S. $400,000,000

BankAmerica Overseas Finance Corporation N.V.

Guaranteed Floating Rate Subordinated Capital Notes Due 1996

Guaranteed on a subordinated basis as to payment of principal and interest by

BankAmerica Corporation

Interest Rate	6 5/16% per annum
Interest Period	30th September 1986 31st December 1986
Interest Amount per U.S. $50,000 Note due 31st December 1986	U.S. $790.63

Credit Suisse First Boston Limited
Agent Bank

US$ 100,000,000
Household Bank f.s.b.
Collateralized Floating Rate Notes due June 1996

For the three months 29th September 1986 to 29th December 1986 the Notes will carry an Interest Rate of 6.275% per annum with an interest amount of US$159.24 per US$50,000 principal amount. The relevant interest payment date will be 29th December 1986. Listed on the Luxembourg Stock Exchange.

Bankers Trust Company, London Agent Bank

IRELAND
U.S.$50,000,000
Floating Rate Notes due March 1988

In accordance with the provisions of the Notes, notice is hereby given that the rate of interest for the next interest period has been fixed at 6 1/8 % per annum.

The coupon amount will be US$3,191.32 and will be payable on 31st March, 1987 against surrender of Coupon No. 12.

Agent Bank:
Morgan Guaranty Trust Company of New York
London

FT FINANCIAL TIMES CONFERENCES

FINANCING TOMORROW'S WINNERS

Robinson College, Cambridge
28 October, 1986

For information please return this advertisement, together with your business card, to:
Financial Times Conference Organisation
Minster House, Arthur Street, London EC4R 9AX.
Alternatively, telephone 01-621 1355 telex: 27347 FTCONF G. fax: 01-623 8814

Wells Fargo & Company
U.S. $150,000,000
Floating Rate Subordinated Notes due 1992

In accordance with the provisions of the Notes, notice is hereby given that for the Interest period 30th September, 1986 to 31st October, 1986 the Notes will carry an Interest Rate of 6.2875% per annum. Interest payable on the relevant interest payment date 31st October, 1986 will amount to US$54.14 per US$10,000 Note.

Agent Bank:
Morgan Guaranty Trust Company of New York
London

Wells Fargo International Financing Corporation N.V.
U.S. $50,000,000
Guaranteed Floating Rate Subordinated Notes due 1996

In accordance with the provisions of the Notes, notice is hereby given that for the Interest Sub-period 30th September, 1986 to 31st October, 1986 the Notes will carry an Interest Rate of 6 1/4% per annum. The interest accrued for the above period will amount to US$52.74 and total interest payable per Note on 31st October, 1986 will be US$158.28.

Agent Bank:
Morgan Guaranty Trust Company of New York
London

U.S. $100,000,000

RENFE

Red Nacional de los Ferrocarriles Españoles

Guaranteed Floating Rate Notes Due 1991
Irrevocably and unconditionally guaranteed by
The Kingdom of Spain

Interest Rate	6 5/16% per annum
Interest Period	29th September 1986 30th March 1987
Interest Amount per U.S. $5,000 Note due 30th March 1987	U.S. $159.57

Credit Suisse First Boston Limited
Agent Bank

U.S. $75,000,000

Comerica Incorporated

Floating Rate Subordinated Capital Notes Due 1997

Interest Rate	6 5/16% per annum
Interest Period	29th September 1986 29th December 1986
Interest Amount per U.S. $50,000 Note due 29th December 1986	U.S. $782.03

Credit Suisse First Boston Limited
Agent Bank

U.S. $50,000,000

BANCO de VIZCAYA, S.A.
London Branch

Negotiable Floating Rate London Dollar Certificates of Deposit Due 31st March, 1987

Interest Rate	6 1/4% per annum
Interest Period	30th September 1986 31st March 1987
Interest Payment Date	31st March 1987

Credit Suisse First Boston Limited
Agent Bank

CITICORP
U.S. $150,000,000
Retractable Notes Due October 30, 1996

Notice is hereby given that pursuant to the Terms and Conditions of the Notes, the new Rate of Interest for the period October 30, 1986 to October 30, 1989 will be fixed by the Company and notice of the new Rate of Interest will be published on October 14, 1986.

September 30, 1986, London
By: Citibank, N.A. (CSSI Dept.), Agent Bank
CITIBANK

CITICORP
U.S. $500,000,000
Subordinated Floating Rate Notes Due October 25, 2005

Notice is hereby given that the Rate of Interest has been fixed at 6.2875% and that the interest payable on the relevant Interest Payment Date October 31, 1986 against Coupon No. 12 in respect of US$10,000 nominal of the Notes will be US$54.14.

September 30, 1986, London
By: Citibank, N.A. (CSSI Dept.), Agent Bank
CITIBANK

INTERNATIONAL COMPANIES and FINANCE

Fixed-rate issues decline

By Clare Pearson

PRICES IN the fixed-rate Eurobond market were marked down yesterday, burt mainly by the failure of finance ministers of leading industrial nations to agree on co-ordinated interest rate cuts at their Washington meetings over the weekend.

The Eurosterling market in particular suffered e sharp downturn on concern over the currency and rising short-term interest rates. Prices of long-dated Eurosterling bonds were slashed by up to 2½ points, while five and seven-year bonds saw price falls of around 1½ points.

Dealers said they expected e rise in bank base lending rates this week, which should steady the market. But they predicted that only e rise of around 1½ per cent from the current 10 per cent level was likely to bring investors back to this sector.

The Eurodollar market traded quietly yesterday with prices down about ¼ point on the day. No new straight fixed-rate bonds were launched, although Yamaichi International issued an equity-warrant bond for Ishihara Sangyo, the Japanese chemical producer.

The $70m, five-year bond carries an indicated coupon of 3¼ per cent, the same level as a five-year equity warrants deal for Ebara last week.

Daiwa Europe launched e Y20bn, seven-year deal for Procter & Gamble, the triple-A rated US manufacturer and distributor of household products. The bond pays interest at 5¼ per cent and is priced at 101.

The floating-rate note market also suffered price falls of around 10 basis points. Most recent deals were trading outside the level of their total fees, although a $200m deal for ENI International Bank was quoted on brokers' screens at around par, the level of its 10 basis point commissions.

Euro DM bond prices were marked down by about ¼ point as the domestic market lost up to a point. A recent DM 200m 6½ per cent 10-year bond for Midland International was trading at a discount to issue price of 2½ per cent on the bid side.

Union Bank of Switzerland issued a SFr 100m bond for Province of New Brunswick. The 5¼ per cent bond has a final maturity in 2006, and is priced at par. It may be called in 1996 at a price of 102½ and then at declining premiums.

Steven Butler on reaction to a central bank's new regulations aimed at strengthening broking houses

Tough action restores confidence to Singapore market

THE STRONG bull stock market in Singapore over the summer, which caught many market observers by surprise, appears to have run its course for the time being. Yesterday the market was falling from a peak of about 850 on the Straits Times Industrial Index, to 819.82. Even so, the recovery of share prices from the depths seen earlier in the year indicates a broad restoration of confidence in the Singapore economy, and in the market itself.

The three-day closing of the market in December last year, after the collapse of Pan Electric Industries, produced many predictions that investors would shy away from the market for a very long time. There are continued doubts about the way the Monetary Authority of Singapore (MAS), the island-state's quasi-central bank has asserted control over the market players, after e bone-jarring shake-out. But the MAS appears to have succeeded in restoring fundamental confidence in market institutions.

The four big banks, the Development Bank of Singapore, the Overseas Chinese Banking Corporation, the Overseas Union Bank, and United Overseas Bank—now have seats on the exchange. They have garnered nearly all of the business from foreign brokers, even though they have not appeared as volume leaders in the market.

A new set of regulations governing the market was issued in August and these regulations will serve to strengthen the broking houses financially in order to avoid a repeat of last year's fiasco. Previously, brokers heavily financed their customers' share transactions with bank loans. When the market collapsed some brokers who could not collect on forward share contracts were forced into liquidation by their banks.

The new regulations sound e bit like rules to govern banks. The brokers face new limits on indebtedness and on exposure to single clients and securities. They must not allow the value of securities carried on their own books to exceed 150 per cent of their average adjusted net capital, which is defined in exceedingly stringent terms. Brokers must also maintain reserve funds.

Reaction to the new regime in the market is predictably mixed. "Before you could do everything under the sun," says one local broker who complains that all are being made to suffer for the mistakes of a few. "But they want to rescue you by squeezing your neck."

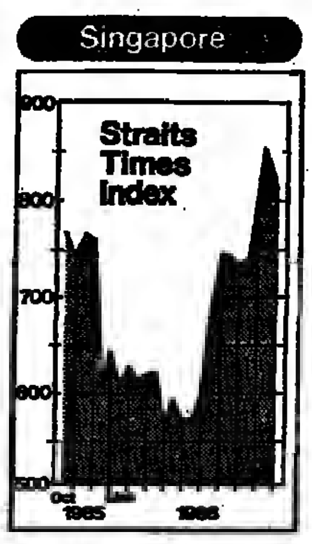
"The MAS didn't know whet to do when the crisis came," says another Singapore broker. "But the end result is e restoration of some of the lost credibility."

Some foreign brokers are more sceptical. "They've gone over the cracks with very thick paint," says one. "If everybody did what you are supposed to do, the market would stop."

The fear is that the MAS, which has a reputation for rigidity, will regulate the life out of the market. Many brokers are uncomfortable already about requirements for extensive disclosure of interest in and evidence of research for recommendations about transactions. The MAS has not indicated how this disclosure should be made and no one is sure what will put them into compliance with the law or how to win e legal suit from a client who loses money and decides to sue.

The latest capital requirements will force almost all the brokers to raise new money. But it is not clear yet from where that money is going to come. The Stock Exchange Committee, now dominated by the four banks, acted in July to prevent Sun Hung Kai Securities of Hong Kong from acquiring a controlling interest in City Securities. Rejection of the proposal later forced City Securities into provisional liquidation.

At the time, it was believed that the four banks had been behind the rejection of the proposal, but other local brokers had expressed apprehension about having e large foreign securities company enter the local scene. "The timing for foreign entry is not right," says one. "Wait until we are stronger."



Others see this as a myopic view, especially because of the trend towards globalisation of securities transactions. Denying entry to large international players will hardly help Singapore reach its goal of becoming a global finance centre.

Mr Joe Pillay, head of the MAS, however, has indicated his support for more foreign involvement in the domestic securities houses.

Many foreign brokers had persistently warned clients away from the market in the spring because the Singapore economy looked in such bad shape. They admit now the summer rally caught them sleeping.

The rally appears to have been fuelled by several factors. One was the simple restoration of faith in the market. The collapse of prices in the winter brought on a self-propelling downward spiral as investors were forced to sell shares when banks called in share-backed loans. Some of Singapore's cash-rich institutions, including the Government statutory boards, bought in at the bottom and helped turn the market around.

The effects of a Government economic recovery programme also began to be felt. The programme, which slashed tax rates, utility charges, and contributions to the Government's mandatory pension scheme, translated into immediate cash for many companies. The full short-term effects of the programme should show up in results for the second half of the year.

The changes promise longer-term benefits for Singapore's manufacturing sector.

The Government also allowed Singapore retirees to invest some of their pensions in the stock market for the first time. By the end of August S$94.7m (US$38m) had been invested out of e potential total of S$2.3bn. Although the amount is relatively small, brokers stress that the effect on overall demand for shares can be significant because a majority of shares for most companies tend to be held very closely.

Many brokers predict a continued consolidation in the market in the coming weeks, and others express worry that the average price/earnings ratio at about 30 makes Singapore stocks too expensive. Even so, many brokers recommend Malaysian plantation issues, on the theory that commodity prices can only go up.

Support buying for Fiat shares

BY ALEXANDER NICOLL

DEUTSCHE BANK Capital Markets disclosed yesterday that it bad spent several hundred million dollars supporting Fiat's share price on the Milan stock market since last Wednesday's launch of a $2.1bn placement of the Italian car maker's shares.

The offering, representing two-thirds of e 15 per cent stake in Fiat sold by Libya last week, is the biggest ever seen in the Euro-equity market. Deutsche Bank's handling of the transaction bas roused considerable criticism from other banks involved.

Some co-lead managers said they could suffer losses on their commitments if the prices of the Fiat securities continue to fall as they have in the past few days. Yesterday, the ordinary share price fell L280 to L15,250, against last week's high of L16,600.

The closing price gave a dollar equivalent of $10.93, compared with the $11.28 price at which ordinary shares are being offered. Commission, however, total some 4 per cent.

Some co-lead managers say the offering was put together too hurriedly and with too little co-ordination. They say settlement procedures—always an important question with Italian shares — were not properly clarified by Deutsche Bank. This, they say, has led to some institutional investors cancelling commitments they had made to take shares.

Deutsche responded vehemently to these criticisms yesterday. "We feel that the market has not given us enough support," said Mr Ronald Lemke, a director of Deutsche Bank Capital Markets which is leading the deal from London. Deutsche believed some banks which had committed themselves to underwriting, "rather than going out and trying to place the shares with investors, went out and smacked them into the Milan market."

Deutsche, acting on behalf of the managing syndicate, had consequently bought shares in Milan to stabilise the price and continued to do so yesterday.

Mr Lemke admitted that Deutsche had not responded to requests for clarification of settlement procedures, because to do so would have been an invitation to underwriters to sell. The Fiat shares being placed, though they are being sold in dollars and are intended to form the basis of a dollar-denominated market outside Italy in Fiat shares, are, however, indistinguishable from other Fiat shares.

They may be physically delivered through the links which Eurobond clearing systems have with Italy's settlement system, and Deutsche said yesterday thet this should be within two to seven days of e request being made.

Deutsche said that it placed $450m worth of its $600m commitment and that it had received no cancellations. The ordinary shares and savings shares had been going well, but the preferred shares were moving more slowly. "Nobody believed that a placement of this magnitude could be achieved overnight," Mr Lemke said.

Another co-lead manager which has been prominent in the Euro-equity market said, however, that it had placed only half of its commitment and that only the ordinary shares were meeting demand.

See Lex

Chinese citizens to use travellers cheques

BY ROBERT THOMSON IN PEKING

CHINA is to permit ordinary Chinese citizens to use travellers cheques to conduct business. The move comes as part of significant banking reforms and replaces the present awkward procedure of having to carry large bundles of cash from city to city.

Under the regulations, which become effective from tomorrow, the state-run industrial and commercial bank will also introduce inter-city savings deposits and withdrawals, and allow direct telegram remittances and more flexible bank drafts.

Interestingly, the bank will encourage foreigners to use the renminbi, the Chinese currency, instead of the special foreign exchange certificates foreigners have been expected to use in China. The Government had promised to abolish the certificates in coming months because of widespread black marketeering.

The new travellers cheques, the first of their kind to be used by Chinese, will be available in 40 branches in 10 major cities. Customers will be eble to cash them et any of the branches, and the cheques will be issued in denominations of 100, 500 and 1,000 yuan (100 yuan equals US$27).

Mrs Chen Muhua, Governor of the People's Bank of China, the central bank, indicated that she wants the new services to be introduced throughout the country as soon as possible.

The reforms are part of the government's drive to modernise the banking system, which has been severely hampered by a poor communications network and stifling controls on bank activity.

Previously, bank drafts could only be cashed in a designated bank office, but the latest system will enable the bearer to cash drafts at any of the 40 branches. In the past, bank customers in China could only withdraw money from the savings branch at which they had e deposit.

Industrial and Commercial Bank and Agricultural Bank have already been experimenting with cheque accounts for ordinary Chinese. The banks have warned customers that they are not allowed to sign cheques with a long validity period, and that those who pass dnd cheques will be fined at 1 per cent of the face valne of the signed cheque.

Japan insurers warned on high coupon bonds

By Yoko Shibata in Tokyo

THE JAPANESE Ministry of Finance has been pressing life insurance companies to exercise prudence in their investments in high coupon bonds.

The insurance section within the MOF's banking bureau has been meeting companies individually and is apparently hoping to persuade them to set up voluntary guidelines for the purchase of high coupon bonds.

An official of the bureau said yesterday of the life companies' holdings of high coupon bonds that "in every sense these cannot be regarded as an appropriate financial instrument in which to manage their assets since they will certainly show losses on redemption if they are held until that time."

High coupon bonds are those issued by Japanese borrowers in the Euromarkets with high coupon rates and priced at 10 to 12 per cent above 100, though redeemable at par. Since the high premium paid for the bonds can be treated for tax purposes as a valuation loss, institutional investors can enjoy yields as high as 9 to 10 per cent on dollar bonds and 7½ to 7¾ per cent on yen bonds.

Understandably, high coupon bonds are being seized upon eagerly by institutional investors, such as life companies, trust banks and investment management groups, all of which are under intense competitive pressure to show high returns on the assets they manage.

Most of the high coupon bonds issued so far have been lead managed by Japanese security houses, and the paper typically ends up in the portfolios of Japanese institutions including life insurance companies.

A recent example was the Y25bn, five-year issue by Mitsui, the big trading company, on September 3. Almost all has been bought by Japanese life companies on a forward basis in order to comply with the 90-day rule designed to prevent the immediate reversion to Japanese investors of Euroyen issues.

Chemical wins CD mandate for Fuji Bank

By Our Euromarkets Staff

CHEMICAL BANK International has been mandated to arrange a £500m certificate of deposit facility, believed to be the largest ever in sterling, for the London branch of Fuji Bank.

Under the five-year deal, Fuji will issue CDs of between one and 12 months at a maximum yield of London interbank offered rates (Libor). Banks taking part will make bids on a Libor-related basis up to this level.

FT INTERNATIONAL BOND SERVICE

Listed are the 200 latest international bonds for which there is an adequate secondary market.
Closing prices on September 29

US DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Amoco Ca. 9¾ 16	200	103⅝	103⅞	−⅛	+1	9.37
Atlan. Richfield 10¼ 00	200	106½	107¼	+⅛	+⅛	9.35
Australia Com. 11 95	200	113⅝	113⅞	−½	+½	8.68
Australia Com. 11¼ 00	300	112⅝	113¼	−⅛	+⅛	9.51
BP Capital 9¾ 94	300	103¾	103⅞	0	+⅜	8.75
BP Capital 11¼ 92	150	109⅞	109⅞	−⅛	+1½	8.80
Campbell Soup 10½ 95	200	110⅝	111⅛	−⅛	+⅛	8.38
Canada 9 96	1000	104¼	104⅝	−⅛	0	8.38
Canada 11¼ 90	500	111¾	112⅛	−⅛	+⅛	7.42
Canadian Pac. 10¼ 95	100	108	108⅝	−⅛	−⅛	9.06
CEPME 10½ 91	200	108	108½	0	+⅛	8.07
Credit Lyonnais 9 91	200	104⅛	104⅝	−⅛	+⅛	7.74
Credit National 9¾ 93	150	104½	105	0	+⅛	8.13
Denmark Kingdom 7 89	500	99⅞	100	−⅛	+½	7.14
Denmark Kingdom 7¾ 95	250	97½	98	0	+⅛	8.19
Denmark Kingdom 8¾ 91	300	103¼	103⅝	0	+½	7.72
Deutsche Bank Fin. 8 90	130	98⅝	99⅛	−⅛	+⅛	8.51
EDC 8½ 92	100	102⅝	102⅞	−⅛	−⅛	7.95
EEC 8¾ 96	200	100⅝	100⅞	−⅛	+⅛	8.14
EEC 8⅞ 91	150	104¼	104¾	−⅛	+½	7.37
EEC 9⅝ 90	350	105¼	105⅝	0	−⅛	7.89
EIB 10⅛ 94	200	109½	110⅛	−⅛	+⅛	8.53
EIB 12 95	200	122⅝	122⅞	−⅛	0	8.34
Eurofima 7¾ 91	100	99⅞	100⅜	−⅛	0	7.71
Export Dev. Cpn. 10 90	200	107⅞	108⅜	−⅛	+⅛	7.37
Finland 7½ 93	100	97	97½	0	+⅛	8.05
Ford Motor Cred. 10½ 91	200	107⅞	108⅜	−⅛	0	8.52
Ford Motor Cred. 11¼ 90	100	109⅝	110	−⅛	−⅛	7.98
Gen. Elec. Cred. 10¼ 00	200	107	107⅝	+⅛	+⅛	9.29
GMAC 10⅛ 89	200	106⅞	107⅜	0	+⅛	7.20
GMAC 8½ 93	100	100	100½	−⅛	+½	8.44
IADB 9⅞ 95	200	108½	109⅛	−⅛	0	8.46
Liberty Mutual 8½ 96	150	99⅞	99⅞	−⅛	+⅛	8.55
LTCB of Japan 5 91	100	100⅝	101¼	0	+⅛	7.74
Merrill Lynch 8⅞ 91	100	†102¼	103⅛	0	−1¼	8.37
Mercedes-Benz Cred. 7½ 95	100	98⅛	98⅝	+⅛	+⅛	7.81
New Zealand 8¾ 95	200	99⅜	99⅞	−⅛	+⅛	8.94
Norway Kingdom 7¼ 91	100	98½	99	0	+⅛	7.56
Pepsico Inc. 7¾ 95	200	96	96½	−⅛	+1½	8.12
Proct. & Gamb. W 9¾ 92	150	105⅝	106¼	−⅛	0	8.57
Qantas Airways 10⅝ 95	140	109⅞	110⅜	−⅛	+⅛	8.71
Queensland Govt. 10¼ 95	100	108	108⅝	0	0	9.01
Ralston Purina 11¼ 95	200	†112⅝	113⅛	−⅛	−⅛	9.47
Saab Scania 9½ 91	125	104½	105	−⅛	0	8.15
Saskatchewan 10¼ 92	100	109⅛	109⅝	−⅛	+⅛	8.46
Scandinavia Air. 10⅛ 95	150	107⅝	108⅛	−⅛	+⅛	8.79
State Bk. S. Aust. 9¾ 95	100	†107	107½	+⅛	+⅛	7.75
Statoil 10 90	170	107⅝	107⅞	−⅛	0	7.67
S. Wales Trsy. 11¼ 90	150	110⅝	111	−⅛	−⅛	8.14
Swed. Exp. Cred. 10 92	100	109½	110	0	+½	7.79
Sweden 8¾ 96	100	102⅝	103⅛	−⅛	+⅛	8.27
Sweden 10⅛ 92	150	110⅝	111⅛	−½	+½	7.94
Sweden Kingdom 10⅞ 90	200	110⅝	110⅞	0	+⅛	7.44
Sweden 11¼ 94	100	115⅜	115⅞	0	−⅛	8.98
Toyota Motor Cred. 8 89	100	†102⅝	102⅞	−⅛	+⅛	6.55
Victorian Rep. 11⅛ 92	150	112⅝	112⅞	−⅛	−⅛	8.65
World Bank 8½ 16	150	98⅛	98⅝	−1¼	+⅛	9.25
World Bank 9¾ 16	300	102⅝	102⅞	−⅛	+3⅛	8.98
World Bank 9⅞ 16	300	104	104½	−½	+⅛	9.31
World Bank 10⅛ 95	300	112⅝	112⅞	−⅛	+½	8.46
Yasuda Trust Fin. 8½ 93	100	100⅝	100⅞	+⅛	−⅛	8.41

Average price changes on day −⅛ on week +⅛

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Asian Dev. Bank 6 94	200	*†100⅝	100⅞	0	+⅛	6.41
Austrian Elec. Co. 6½ 95	150	*†100⅝	100⅞	0	+⅛	6.40
BMW 5¾ 96	200	*†92⅝	92⅞	0	+⅛	6.27
Daimler Benz Int. 5¾ 01	500	*†94⅝	94⅞	0	+⅛	6.32
Dow Chemical 5⅞ 96	300	*†94⅛	94⅝	0	+⅛	6.46
Dow Chemical 6¾ 95	300	*†102⅝	102⅞	0	−⅛	6.32
EIB 5½ 98	150	*†93⅛	93⅝	0	+⅛	6.27
EIB 6⅝ 95	300	*†103½	103½	0	+⅛	6.35
EIB 7¼ 94	300	*†105¼	105¼	0	+⅛	6.40
Emhart Corpn. 6¾ 95	275	*†102	102	0	+⅛	6.45
Eurofima 6¼ 96	100	*†99⅛	99⅝	0	+⅛	6.30
Ex.-Im. Bk. Korea 7⅛ 90	100	*†104¼	104¾	0	+⅛	5.72
Finland Republic 7 92	200	*†103¾	103¾	0	+⅛	6.14
Hoesch Intl. Fin. 7 95	100	*†102⅞	102⅞	0	−1	6.60
Hydro Quebec 5½ 96	125	*†93⅝	93⅞	0	+⅛	6.40
Hydro Quebec 6 16	150	*†93½	93½	0	+⅛	6.50
IBJ 5⅝ 96	200	*†94	94	0	+⅛	6.40
Ireland 8¼ 92	250	*†108½	108½	0	+⅛	6.27
VS Eisen 6¼ 93	125	*†100⅛	100⅝	0	+⅛	6.70
Korea Dev. Bank 6⅞ 95	100	*†97⅝	97⅝	0	−⅛	7.05
Mitsubishi M. 3¾ 89 WW	300	*†109⅝	109⅝	0	0	0.25
Mitsubishi M. 3⅞ 89 XW	300	*†94	94	0	0	3.39
Renfe 7¼ 95	100	*†104⅛	104⅛	0	0	6.76
Soc. Cent. Nucleair 7¼ 95	150	*†102⅝	102⅝	0	+⅛	6.89
Soc. Cent. Nucleair 8 91	100	*†104⅛	104⅛	0	+⅛	6.94
Sarawag 5½ 96	200	*†92⅝	92⅝	0	0	6.61
World Bank 7 95	600	*†104½	104½	0	+⅛	6.32
Yorkshire Intl. 6¼ 01	200	*†94½	94½	0	−½	6.85

Average price changes on day 0 on week +⅛

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Avon Cap. Corpn. 5⅞ 94	130	*†103¼	103¼	0	−⅛	5.28
Brit. Land Comp. 6¼ 99	75	*†105¼	105¼	0	−⅛	5.86
Chrysler 5¾ 96	160	*†103⅛	103⅛	0	+⅛	5.46
Council of Europe 6 92	120	*†104⅛	104⅛	0	−1	5.28
Creditanstalt 5½ 94	150	*†102⅝	102⅝	0	+⅛	5.37
Deutsche Bk. Fin. 5½ 95	200	*†104⅝	104⅝	0	+⅛	4.68
Gen. Occidentale 4⅞ 94	60	*†120⅝	120⅝	0	+2⅛	1.76
Glendale F. S. & L. 5½ 95	100	*†101⅛	101⅛	0	0	5.27
Homarta 5⅞ 98	120	*†98⅝	98⅝	0	+⅛	5.25
Ind. Fund Fin. 5¾ 94	40	*†102⅝	102⅝	0	+⅛	5.32
N. Zealand Steel 5¾ 95	70	*†101½	101½	0	−1¼	5.57
Oberos. Kraft. 5⅞ 95	100	*†103⅝	103⅝	0	−½	4.98
Olivetti Intl. 5½ 95	100	*†103⅝	103⅝	0	−1	4.98
Pepsico 5¼ 95	150	*†104⅛	104⅛	0	−⅛	4.61
Philbro-Salomon 5⅝ 97	120	*†102⅝	102⅝	0	0	4.81
Ralston Purina 5⅞ 94	125	*†103⅛	103⅛	0	−½	4.90
Settsu Euro. 0 01	100	*†46⅛	46⅝	0	−⅛	5.43
Tokyo Elec. Power 5½ 93	150	*†106⅛	106⅛	0	+2	4.96
Tokyo Elec. Power [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Tokyo Metropolis [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
World Bank [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Average price changes on day 0 on week +⅛

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Amer. Expr. O/S Cr. [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Denmark [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dow Chemical [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
EIB [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Province de Quebec [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Average price changes on day 0 on week [illegible]

OTHER STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Amer. Ex. OS Cr. 0 91 A$	200	58⅛	59⅛	−⅛	+½	13.81
Bremer Ldsbk. 12¾ 91 A$	30	97⅛	98⅛	−⅛	0	13.38
Fiat Finance 14½ 89 A$	50	†99½	100½	0	0	14.38
GMAC 12⅞ 89 A$	40	97⅛	98⅛	−⅛	0	13.36
Landsbk. Rheinl. 13 89 A$	30	97⅛	97⅞	−⅛	+⅛	14.13
Canadian Pac. 10⅛ 90 C$	75	†101¼	102¼	−⅛	+⅛	9.75
Chrysler Corpn. 10 91 C$	75	†97½	98	−⅛	+⅛	9.86
Genstar Fin. 11¼ 95 C$	75	*†105½	105⅞	0	+⅛	10.80
GMAC 9¾ 92 C$	75	†98½	99	−½	0	9.52
Royal Trustco 10⅞ 90 C$	75	†99⅛	99⅞	−½	−⅛	10.54
Sears Acc. 10½ 92 C$	75	*†102½	102⅞	0	+⅛	10.13
Coca-Cola F. C. 17 90 NS	75	†104	104½	0	+½	15.44
Denmark 17½ 89 NS	50	*†102¼	102¼	0	0	16.13
Unilever Cap. 17½ 89 NS	50	†104	104½	0	+½	15.60
Copenhagen City 9 95 Ecu	40	†102½	103	−⅛	−½	8.55
EIB 8⅝ 95 Ecu	100	†104⅛	105⅛	−⅛	+⅛	7.62
Walt Disney 8⅝ 94 Ecu	62	†102¼	102¾	−⅛	−⅛	8.27
Honda Mtr. WW 3⅞ 90 Fl	200	109	109½	0	+⅛	1.14
Honda Mtr. XW 3⅞ 90 Fl	200	92¼	93¼	0	0	6.17
Thyssen 7¼ 90 Fl	50	104½	104⅞	0	0	5.96
Wereldhave 7½ 90 Fl	75	104½	105	0	+⅛	6.07
Wessanen 6¾ 90 Fl	50	103⅝	104⅛	+⅛	+⅛	5.61
Asstv 11 93 £	50	†95⅛	95⅝	−2	−3⅛	12.06
Australia Com. 11 92 £	40	†95⅛	95⅝	−2	−2⅞	12.12
GMAC UK Fin. 10⅞ 90 £	50	95⅛	95⅝	−1¼	−3⅛	12.07
Imp. Chem. Inds. 10 03 £	100	91	91½	−1¼	+⅛	11.36
Imp. Chem. Inds. 10⅛ 92 £	75	95⅝	96	−3	−1¼	11.87
Invest. In Inds. Int. 10 93 £	60	90⅝	90⅞	−3⅛	−3⅞	12.19
Leeds Bldg. Soc. 10½ 91 £	50	92¼	93⅛	−2⅛	−3¼	12.59
McDonalds 10⅞ 90 £	40	†95⅞	96⅛	−2	−3⅛	12.23
Nationwide BS 10⅛ 93 £	75	90⅛	90⅝	−3	−3½	12.33
NSW Treasury 10⅝ 92 £	50	93	93½	−2	−2⅛	12.22
Royal Insce. 10⅛ 92 £	60	95½	96⅛	−3⅛	−1	11.78
J. Sainsbury 10⅞ 95 £	60	94	94½	−2	−2⅛	12.21
Trusthouse Forte 11¼ 90 £	50	†95¼	95¾	−2	−3⅛	12.73
World Bank 11¼ 95 £	100	†104⅛	105⅛	+⅞	+2⅛	10.35
CoE 8⅞ 95 LFr	600	†105½	106	+⅛	+⅛	7.96
EIS 8⅝ 93 LFr	1000	†108	105½	−⅛	−⅛	7.54

FLOATING RATE NOTES	Spread	Bid	Offer	C.dte	C.cpn
Alliance & Leic. Bldg. £94	0.08	99.07	99.12	10/10	10.08
Bank of Montreal 90	0.05	99.72	99.81	23/01	5⅞
Barclays Bank Perp. 1	0⅛§	100.50	100.59	2/01	7.06
Barclays Bank Perp. 2	0⅛§	100.17	100.27	14/08	8⅛
Belgium, Kingdom of 91	0	100.52	100.62	19/02	8.06
BNP 5¾ 95	0.00	†102.06	102.16	12/01	6.8
Britannia 5 95 £	0⅛	99.34	99.41	8/10	10.19
Chase Manhattan Corpn. 91	0⅛	99.66	99.76	20/08	6.12
Citicorp 90	0⅛	99.10	99.20	29/08	7.19
Credit Lyonnais 5 00	0⅛	100.84	100.94	12/01	6.01
EEC 5 92 DM	0	100.49	100.58	20/08	4.44
EEC 5¾ 95 Ecu	0.0312	99.67	99.77	30/07	7.46
Halifax Bldg. Soc. £ 94	0.1	99.35	99.46	6/08	10.54
Lloyds Bank Perp.	0⅛	100.79	100.89	9/12	7½
Midland Bank 01 £	0.1	99.57	99.66	7/11	10.6
Milk Mrktg. Board 5 95 £	0⅛	99.43	99.48	26/09	9.94
NatWest Perp. A	0⅛§	100.69	100.79	9/01	6.94
NatWest Perp. B	0⅛§	100.69	100.78	10/02	8⅛
New Zealand 5 97 £	0.07	99.46	99.56	14/08	10⅛
New Zealand 5 01	0	100.27	100.37	4/02	8.15
Prudential Corpn. 4 95 £	0.1	99.57	99.67	2/09	9.85
Royal Bk. Scotland 5 Prp.	0⅛	100.15	100.25	11/12	7⅛
United Kingdom 5 92	0	100.21	100.28	7/10	7.29
Woodside Financial 5¾ 97	0	99.85	99.95	28/10	6.81
Woolwich 5 95 £	0⅛	99.27	99.32	19/11	10½

Average price changes on day −0.03 on week −0.02

CONVERTIBLE BONDS	Cnv. date	Cnv. price	Bid	Offer	Chg. day	Prem
Ajinomoto 3 99	4/84	1033	249⅛	251¼	−2⅛	4.25
Fanuc 3¾ 98	1/84	7852	230⅞	232⅞	+1⅞	100.60
Fuji Heavy Industries 5 00	8/85	676	123	124	+2⅛	4.42
Fujitsu 5 99	5/84	1320	125⅛	126½	+6½	22.69
Marui 5½ 99	7/84	1162	338½	340½	0	−2.79
Minolta Camera 2¼ 94 DM	2/86	1305	*†102⅞	102⅞	0	59.56
Mitsubishi Bank 2⅞ 00	8/85	1768	154	155½	+2	2.70
Mitsubishi Elec. 2⅞ 00	3/85	422	†212	213	+6	4.16
Mitsui Bank 2⅞ 01	4/86	101.9	123½	125	+⅛	−90.27
Murata 3½ 00	7/84	2390	161	160½	−1⅛	30.42
Nippon Elec. 2⅞ 00	1/85	1215	300⅛	302⅞	+25⅛	260.80
Nippon Oil Co. 3 01	3/85	923	182⅛	183⅞	+⅛	3.29
OKI Elec. Ind. 3½ 99	10/84	885	137¼	139¼	−⅛	−2.28
Sanwa Bank 2⅞ 00	10/85	1406	150	151½	+1	3.47
Sekisui House 3 99	6/84	612	392⅛	394⅛	+⅛	2.88
Sumitomo Bank 2¾ 00	8/85	2142	177¼	179⅛	+20	12.38
Sumitomo Corpn. 2⅞ 99	5/84	925	283½	285	+34⅛	19.10
Taiyo Yuden 3⅞ 00	3/85	1078	*†148	148	0	1.10
Toshiba Ceramics 3 00	4/85	1734	127⅞	128⅛	+⅛	6.88
Nippon Oil Co. 2⅛ 92 SFr	3/84	1052	*†128½	128½	0	11.72
Nippon Shinpan 2 92 SFr	3/84	881	*†190½	190½	0	17.65
Asics 3 92 DM	12/85	520	†115	116	+1	−4.21

* No information available—previous day's price.
† Only one market maker supplied a price.

Straight Bonds: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week=Change over price a week earlier.

Floating Rate Notes: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte=Date next coupon becomes effective. Spread=Margin above six-month offered rate (‡ three-month; § above mean rate) for US dollars. C.cpn=The current coupon.

Convertible Bonds: Denominated in dollars unless otherwise indicated. Chg. day=Change on day. Cnv. date=First date for conversion into shares. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

The prices over the past week were supplied by: Kredietbank NV; Commerzbank AG; Deutsche Bank AG; Westdeutsche Landesbank Girozentrale; Banque Generale du Luxembourg SA; Banque Internationale Luxembourg; Kredietbank Luxembourg; Algemene Bank Nederland NV; Pierson, Heldring and Pierson; Credit Suisse/Swiss Credit Bank; Bank of Tokyo International; Chemical Bank International; Chase Manhattan; Citicorp International Bank; Daiwa Europe NV; Credit Commercial de France (Securities); EBC Amro Bank; LTCB International; Robert Fleming and Co.; First Chicago; Goldman Sachs International Corporation; Hambros Bank; IBJ International; Kidder Peabody International; Merrill Lynch Pierce Fenner and Smith; Morgan Stanley International; Nikko Securities Company (Europe); Nomura International; Orion Royal Bank; Samuel Montagu and Co.; Societe Generale Strauss Turnbull; Sumitomo Finance International; Swiss Bank Corporation International; S. G. Warburg and Co.; Wood Gundy.

INTL. COMPANIES and FINANCE

Pauwels International gets to grips with Belgian transformer market

BY TIM DICKSON IN BRUSSELS

LAST WEEK'S decision by ACEC, the Belgian group, to sell its Gent-based transformer business has been seen primarily as the latest move by a once proud electrical engineering group to revive its flagging fortunes. But the BFr 250m ($6m) deal also represents a notable coup for the successful bidder.

This is Pauwels International, a family-controlled transformer manufacturer from Mechelen (near Antwerp) which has grown steadily from modest beginnings after the war and which will now exercise a dominant grip on the local market. Between them Pauwels and ACEC account for 70 to 80 per cent of transformer sales in Belgium.

Significantly, however, the Pauwels purchase is largely a defensive manoeuvre in an industry still suffering from overcapacity and dwindling demand.

Mr Vic Pauwels, the company's chief executive, freely admits that in an ideal world ACEC would simply have closed down its lossmaking subsidiary, thus providing a small but welcome boost to margins throughout the industry.

Generous enough price

Such a strategy, however, did not suit Norway's National Industri (part of the Electro Union group), which makes clear in its most recent annual report that it is making a "strong international commitment" to compensate for the decline in its domestic market.

"The company needs full or partial control over transformer factories in the markets where it wishes to achieve export sales, an approach which provides a foothold for expanding exports from Norway," it explains. Last March National Industri acquired Bonar Long, the Scottish transformer factory, and earlier this year started talks with ACEC with a view to repeating the exercise with ACEC's Gent business.

National Industri declined to comment on last week's developments but it is well known in Belgium that the Norwegians were involved in prolonged negotiations with ACEC and came very close to clinching a deal. Fo those outside the industry at least it was a major surprise when Pauwels popped up at the 11th hour.

To thwart National Industri's ambition Mr Pauwels has had to pay a generous enough price and (most onerously) sign undertakings that he will save most of the 165 jobs which are at stake in Gent. Scope for spreading overheads obviously remains but continuing to expand the business which his father started in a Belgian basement 40 years ago will undoubtedly be a formidable challenge.

The European transformer business is far from healthy and despite widespread rationalisation in the past few years continues to suffer from depressed home markets and a shortage of overseas opportunities. The prosperity of many companies was based on the rapid increase in electricity consumption in the 1950s and 1960s but the new climate of conservation after the 1974 oil shock altered the trend.

Capacity in the transformer industry, on the other hand, continued to grow, a problem compounded most recently by the financial difficulties of potential customers such as the oil exporting nations of Africa and the Middle East.

The result has been a spate of mergers or closures with just a handful of major players now dominating the European markets: GEC and Hawker Siddeley are among the leaders for example in the UK; CGE Alsthom and France Transfo in France; Trafo Union (part of Siemens), Brown Boveri, ASEA of Sweden and Lahmeyer (RWE) in Germany and Ansaldo in Italy. The Pauwels/ACEC deal is a further step in this process of concentration.

Mr Pauwels, however, will need all the energy of a second-generation entrepreneur determined to uphold the family tradition if he is to realise his ambition. He appears undaunted by the task and plans to continue production of the whole range of transformers — from the small "distribution" to the large "power" variety — at both sites.

Small home market

The deal with ACEC may not transform the company's "league" position—Mr Pauwels reckons his company is fifth or sixth biggest in Europe—but significantly it broadens its relatively small home base. In common with most other Belgian companies confronted with a small home market, Pauwels has been forced to adopt the motto "Export or Die" with the result that 90 per cent of sales are currently destined for customers beyond its national frontier.

In addition there are Pauwels companies in Saudi Arabia, the US and Ireland—the first minority owned, the other two majority controlled.

Although there is no guarantee that the new owner would automatically pick up ACEC's order book, Pauwels' Belgian turnover is likely to increase by 10 to 15 per cent as a result of last week's deal. By contrast, other European manufacturers, notably Trafo Union and France Transfo, enjoy the cushion of much more significant home markets and public purchasing policies which tend to favour national "champions." Pauwels, albeit in a modest way, claims to be the only foreign supplier to the French.

Looking ahead, Mr Pauwels sees good opportunities for business in developing countries, for whom energy will always be a primary requirement. "Wherever government need to produce, transport and distribute electricity there is a need for transformers," he points out.

Seeking ways to diversify

The company is also prepared to sell its expertise as well as its products (the joint Saudi venture being the best example) and is seeking new ways to diversify. Pauwels contracting, for example, offers customers whole turnkey systems such as electricity substations, while the group has entered into a joint process control and energy management venture with a Danish company.

The deal with ACEC must be tinged with emotion for Mr Pauwels. Today the Charleroi-based company is retrenching fast. It has just called for more than 1,000 redundancies and under the relatively recent joint ownership of Societe Generale de Belgique and France's Compagnie Generale d'Electricite, is attempting to reorientate its activities towards higher added-value electronics business.

Mr Pauwels, however, remembers that when his father started up the business ACEC was as big and powerful as its Dutch neighbour, Philips. "As a boy I can remember him saying 'How long will ACEC let me live?'" Now he has his answer.

RESTRUCTURING HITS ACEC

THE PROBLEMS at ACEC were highlighted over the weekend by the announcement of parent company losses of BFr 288m for the first half of 1986. The company just about broke even over the comparable six months of 1985.

ACEC pointed out that its first half parent company outturn was in line with group budgets. Additional income in the six months from exceptional operations had been wiped out by the cost of the big group restructuring programme, the company said.

However, orders at the end of June were showing a slight increase — at BFr 12bn, against BFr 11.4bn a year ago —and ACEC said it was negotiating a number of contracts which, if successful, would significantly swell the group order position.

Businesses Wanted

PROFITABLE COMPANIES WANTED

We are a medium sized engineering and industrial services publicly quoted group based in the Midlands, but with national interests, looking to expand its manufacturing and service operations. You are, hopefully, a privately controlled company with a good profits record, which is now a minimum of £100,000 pre-tax per annum, wanting to explore the realisation of your capital investment whilst retaining management responsibility for the immediate future.

If you believe we have something to offer each other then write in confidence through:

Box No. H0964 Streets Financial Communications (Midlands), Bennetts Court, 6 Bennetts Hill, Birmingham B2 5ST.

EXPANDING PUBLIC COMPANY

Our core activity is the distribution of industrial and engineering products through national system branches with annual sales of £15 million. As well as generating organic growth we aim to expand by continuing our acquisition programme. To this end we are seeking private or public companies with profits of between £100,000 and £500,000.

Reply to the Chairman, Box H1253 Financial Times, 10 Cannon St, London EC4P 4BY

PRIVATE INVESTOR

Seeks company in the TEXTILE, FASHION, DESIGN INDUSTRY

Preferably/anything would be considered. Good future growth important. Start ups considered depending on management. Location preferably South England

Please reply Box F6823 Financial Times 10 Cannon St, London EC4P 4BY

MULTI-NATIONAL COMPANY

seeks to acquire a TRADING COMPANY with good product spread Preferably with involvement in food related sector

Interested parties please contact: Box F6822, Financial Times 10 Cannon St, London EC4P 4BY

MAJOR FIRM

involved in Insurance Broking, Life Assurance, Unit Trust Advisory Services, Pensions and Benefits Consultancy

Seeks Acquisitions

Commission/fee income between £250,000 and £m pa considered

Write Box G10280, Financial Times 10 Cannon St, London EC4P 4BY

HIGHLY PROFITABLE MOTOR GROUP

T/O £23m

seeks further acquisitions of profitable motor or motor related businesses

PLC MERGER CONSIDERED

Reply Box H1162, Financial Times 10 Cannon St, London EC4P 4BY

LOSS COMPANY WANTED

With losses or allowances brought forward, currently available or about to be incurred.

Trading in spices, rubber, plastic granules or related commodities

Write Box F6829, Financial Times 10 Cannon St. London EC4P 4BY

WANTED CERAMICS COMPANY

Supplying giftware trade (preferably manufacturer) valued at up to £5 million.

All replies treated in strict confidence to Box F6828 Financial Times 10 Cannon St, London EC4P 4BY.

PROFITABLE

Midlands based companies required. Finance available. Management retained autonomous.

Write Box H1302, Financial Times, 10 Cannon Street, London EC4P 4BY.

Snooker & Pool Halls

required. Leases or freeholds. Need not be licensed for alcohol.

Write Box H1303, Financial Times, 10 Cannon Street, London EC4P 4BY.

PLC

willing to consider reverse situation leading to loss of some control. Good profits available. Some tax losses may be advantageous.

Write Box 41301, Financial Times, 10 Cannon Street, London EC4P 4BY.

SMALL PUBLIC COMPANY required, preferably in Property Write Box H 1256, Financial Times, 10 Cannon Street, London EC4P 4BY.

Company Notices

Milk Marketing Board

£75,000,000 Floating Rate Notes 1993

In accordance with the provisions of the Notes, notice is hereby given that the rate of interest for the three months period 26th September, 1986 to 29th December, 1986 has been fixed at 10⅜ [illegible] per cent. per annum. Coupons No.3 will therefore be payable on 29th December, 1986 at £1,376·20 per coupon from Notes of £50,000 nominal and £137·62 per coupon from Notes of £5,000 nominal.

S.G. WARBURG & CO. LTD.

Agent Bank

NOTICE OF REDEMPTION TO THE HOLDERS OF

B.A.T. INTERNATIONAL FINANCE P.L.C.

("the Company")

FF 100,000,000

7¾% Guaranteed Bonds 1987

("the Bonds")

Notice is hereby given that, pursuant to Conditions 5 and 6 of the Bonds, the Company has elected to redeem on 15th November, 1986 ["the Redemption Date"] all of the Bonds outstanding at par together with interest accrued to the Redemption Date. On the Redemption Date, interest will cease to accrue.

The Bonds should be presented for payment together with all unmatured Coupons appertaining thereto, failing which the face value of any missing unmatured Coupons will be deducted from the sum due for payment. Any amount so deducted will be paid against surrender of the relative missing Coupons. Bonds will become void unless presented for payment within a period of ten years.

The Bonds may be presented for redemption at the offices of the Paying Agents as set out on the reverse of the Bonds.

Luxembourg
September 30 1986

The Principal Paying Agent
KREDIETBANK
S. A. Luxembourgeoise

NOTICE OF PREPAYMENT

I/S/ ELSAM

20,000,000 EUROPEAN UNITS OF ACCOUNT 10% 1980/1987 BONDS

In accordance with paragraph "Prepayment" of the terms and conditions of the Bonds, notice is hereby given that I/S ELSAM will repay at par on November 5, 1986 the total amount remaining outstanding of the above-mentioned Bonds.

Payment of interest due on November 5, 1986 and reimbursement of principal will be made in accordance with the terms and conditions of the Bonds.

Interest will cease to accrue on the Bonds as from November 5, 1986.

The Fiscal Agent
KREDIETBANK
S.A. Luxembourgeoise.

Luxembourg,
September 30, 1986.

BUFFELSFONTEIN GOLD MINING COMPANY LIMITED

(Incorporated in the Republic of South Africa)

Registration No. 05/33934/06

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the 37th annual general meeting of members of Buffelsfontein Gold Mining Company Limited will be held in the board room, ground floor, Union Corporation Building, 74-78 Marshall Street, Johannesburg, on Tuesday, 21 October 1986 at 14h30.

per pro. GENCOR (U.K.) LIMITED
London Secretaries
L. J. Baines

30 Ely Place
London EC1N 6UA
30 September 1986

NOTICE OF PREPAYMENT

US$100,000,000 Floating Rate Notes due 1986

Issued on a Fiduciary Basis by Kredietbank SA Luxembourgeoise representing Beneficial Interests in a Loan made by Kredietbank SA Luxembourgeoise to

BANCO DI NAPOLI INTERNATIONAL S.A.

with the irrevocable and unconditional guarantee of

BANCO DI NAPOLI

Pursuant to Article 5(e) of the Loan Agreement dated October 18, 1983, Banco di Napoli International SA will prepay all the loan at par on November 7, 1986.

Consequently, pursuant to the provisions under "Prepayment at the Option of the Borrower" in the terms and conditions of the Notes, the Notes shall also be prepaid in full at par on such date.

Payment of interest due on November 7, 1986 and reimbursement of principal will be made in accordance with terms and conditions of the Notes.

Interest will cease to accrue on the Notes as from November 7, 1986.

The Fiduciary
KREDIETBANK SA
Luxembourgeoise

Luxembourg
September 30, 1986

REPUBLIC OF ITALY

ECU 300,000,000

Floating Rate Notes due 1992

In accordance with the terms and conditions of the Notes, notice is hereby given that for the 3 months period from September 30, 1986 to December 30, 1986 the Notes will carry an interest of 7¹¹⁄₁₆% per annum.

The relevant interest payment date will be December 30, 1986 and the coupon amount per Ecu 10,000 nominal will be Ecu 188 and per Ecu 100,000 nominal will be Ecu 1,880.03.

BANQUE GENERALE DU LUXEMBOURG
Societe Anonyme
Agent Bank

Clubs

EVE has outlived the others because of a policy of fair play and value for money. Supper from 10-3.30 am. Disco and top musicians, glamorous hostesses, exciting floorshows. 189, Regent St., W1. 01-734 0557.

Legal Notices

INSOLVENCY ACT 1985. SECTIONS 4 AND 5 AUTHORISATION OF INSOLVENCY PRACTITIONERS

Take note that I, Charles William Kempe, of Arthur Young & Company, 129 Front Street, P.O. Box HM463, Hamilton 5, Bermuda, intend to apply to the Secretary of State under the provisions of the above Act for authorisation to act as an Insolvency Practitioner.

Any person having reason to believe that such authorisation should not be granted should, within 28 days of publication of this notice communicate such reason to the Department of Trade and Industry, Room 609, Companies House, 55 City Road, London EC1Y 1BB.

UK COMPANY NEWS

Motor side keeps Inchcape ahead

THE MOTOR activities of Inchcape continued their strong performance through the first six months of 1986 and for the period the international merchant was able to lift its profits from £36.22m to £39.76m pre-tax.

The general merchanting operations were affected by weaker economies and lower margins and although tea results were satisfactory, they ran at a lower level than last year due to market prices.

Mr George Turnbull, who took over as chairman from Sir David Orr at the end of the last agm, said yesterday that present indications were that the progress of the group would continue. He added that the outcome of the year should be encouraging.

The chairman pointed out that it was part of the group's strategy to expand its mainstream businesses by development and acquisition — a number of opportunities were under consideration.

Group turnover for the first six months pushed ahead from £931.08m to £940.22m and at the operating level profits showed an improvement of nearly 14 per cent at £44.69m.

Mr George Turnbull, the chairman of Inchcape

The pre-tax results were at the top end of City expectations and took in an associates' share amounting to £3.65m (£13.62m) and investment income of £122,000 (£70,000). Finance charges accounted for £13.71m, down from a previous £16.76m. Tax was unchanged at £17.32m and left net profits £3.52m ahead at £22.43m. Minorities rose from £226,000 to £1.9m.

Earnings worked through 2.1p higher at 24.1p. The interim dividend, which absorbs £8.06m, is a same-again 7.15p net per £1 share.

Extraordinary provisions were cut from £4.93m to £814,000.

During 1985 Inchcape Berhad took into account special provisions for the heavy equipment and agricultural machinery business in Malaysia and significant restructuring costs in its trading activities in both Singapore and Malaysia. Mr Turnbull said the actions taken had resulted in the company returning to profitability.

A *breakdown of group turnover* and pre-tax profits for the half year by class of business showed: general merchanting £280.87m (£292.92m) and £5.34m (£10.39m), insurance £32.55m (£31.81m) and £6.93m (£5.74m), marine and specialist services £61.75m (£53.56m) and £3.73m (£5.34m), motor £504.1m (443.92m) and £24.14m (£13.5m), tea £9.53m (£12.65m) and £2.01m (£4.08m), and other £51.42m (£96.22m) and £3.08m (£4.86m).

By geographical market the figures showed: Africa £6.53m (£8.3m) and £1.3m (£1.43m), The Americas £50.54m (£53.54m) and £2.44m (£1.14m), Australasia £41.16m (£50.8m) and £521,000 loss (£897,000 profit), Europe £126.21m (£85.13m) and £6.33m (£3.56m), Far East £289.67m (£260.91m) and £13.43m (£17.5m), India £8.08m (£11.03m) *and £1.97m* (£3.92m), Middle East £5.96m (£6.82m) and 1.16m (£3.46m), South East Asia £126.84m (£212.71m) and £5.96m (£1.79m) and UK £285.25m (£241.83m) and £13.15m (£10.17m).

For the 1985 year as a whole the group saw its pre-tax profits fall by £32.7m to £46.23m. The setback stemmed from losses in South East Asia and much lower profits from India together with adverse currency movements. The decline came in the second six months.

In the first six months of the current year pre-tax figures were some £1m lower than they would have been if currency translation had been made at rates ruling at December 1985. The figures were struck at rates ruling at June 30.

See Lex

Loss of News Intl. titles pegs Menzies

DESPITE A substantial loss of sales from London wholesale news distribution, John Menzies, newsagent, bookseller and stationer, raised pre-tax profits by 7 per cent from £4.2m to £4.5m for the half year to August 2 1986. Turnover was £10m higher at £265.8m.

On prospects, the company said that the factors affecting Christmas spending seemed favourable this year and if so, second-half profits would exceed those for the similar period last year (£15.2m pre-tax).

Referring to the problems of the London wholesale news distribution, Menzies said that it had completed the reorganisation of its London staffing to take account of the loss of the News International distribution.

After an unchanged tax charge of £1.7m, first-half net earnings were ahead from £2.5m to £2.8m, representing an increase to 4.9p (4.5p) per 25p share. The interim dividend is stepped up from 1.35p to 1.5p net—last year's final was 2.7p.

The company said that Early Learning Centres (acquired in May 1985) had more than fulfilled expectations and priority was being given to its UK expansion. In the US, 10 Early Learning Centres were being opened in the New England region in time for Christmas trading.

First results were encouraging and if hopes were realised, the scope for growth in this market were substantial, the company said.

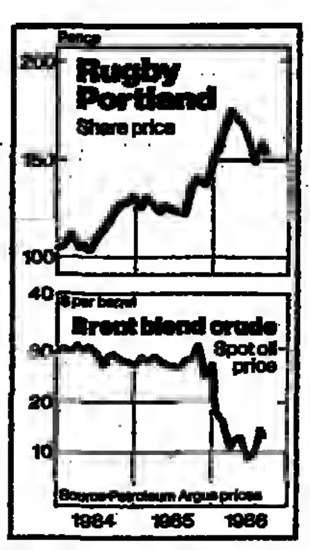
John Menzies Library Services acquired Readmore Publications, a leading New York-based magazine subscription agency, and Universal Office Supplies bought Officepoint to extend its services to the Scottish office market. The goodwill of about £3m arising from these purchase has been written off to reserves.

● comment

After the experience of W. H. Smith, the market was well warned about the impact of the News International dispute on Menzies' London wholesale operation, so the modest 7 per cent profits increase was much as expected. Wholesaling accounts for over 50 per cent of profits and the loss of Murdoch titles in London could have knocked £7m off revenue. But the impact of reorganising operations—including an undisclosed number of redundancies—probably had little impact on first-half figures; Menzies appears to have prudently provided in the previous year. So the effect in terms of lost profits was probably well under £1m. Menzies' second string, the Early Learning Centres, are doing well in the UK and the company hopes to be on target with around 140 outlets by Christmas. Steps in the US are tentative at present—the 10 outlets could incur start-up costs of £1m, with part of that recouped if Christmas trading goes well. If the US reception is warm, another 30-40 outlets are planned for next year, and only on that size of base is the operation likely to break even. With little joy on the wholesaling front, everything hangs on pre-Christmas trading. Menzies is optimistic, and if that translates into pre-tax profits of £21.75m, the shares—down 6p at 307p—are on a prospective P/E of 12.5. With little to fuel profits growth short-term, the rating seems fair.

Strong UK recovery lifts Rugby Portland to £14m

A STRONG recovery in UK trading profits, resulting from both the John Carr acquisition (June 1985) and a better performance from the cement sector, boosted pre-tax figures of Rugby Portland Cement from £6.86m to £14.19m for the first six months of 1986.



The result compares with £11.66m for the 1984 first half and was above City expectations for the period.

Mr G. A. Higham, chairman, said that despite the threat of increased cement imports in the UK the prospects for the group for the remainder of the year looked favourable.

First half turnover expanded to £141.1m, against £107.1m, including £103.7m (£72m) from the UK, while trading profits of £15.21m (£6.74m) consisted of UK £11.46m (£2.61m) and overseas £3.76m (£4.13m).

After tax of £4.42m (£2.45m) earnings per share were shown as 6.7p, compared with 3.5p, while the interim dividend is lifted from 2.9p to 3.1p—last year's final distribution was 3.5p paid from profits of £21.84m pre-tax.

Mr Higham said that all the overseas subsidiaries increased their trading profits in their local currencies, but the move in exchange rates "more than eliminated the increase." He added that the selling prices of the related companies in the US were under pressure and profits suffered.

Group pre-tax figure would have been £667,000 higher had the June 1985 exchange rates been applied, the directors pointed out.

On July 1 John Carr acquired Rothervale Joinery, Sheffield, for £6m, and on June 2 the Addison Corporation acquired another branch at Winter Haven, Florida. Mr Higham said that benefit from these acquisitions would be felt in 1987.

● comment

The *size* of Rugby Portland's advance may have taken some of the pundits by surprise—most were going for around £11m last week—but the share price seemed to have anticipated and took its cue instead from the falling market to shed 1½p to 153½p. Any sense of euphoria might in any case have proved short-lived, for the second half will have to compare with a period which saw a recovery in the UK cement operations and included a first-time contribution from John Carr. With £31m in sight for the full year, however, the prospective p/e ratio of 11 suggests that there is still some upward leeway for the price. Cement imports may look threatening but Rugby has reduced the contribution to profit of its UK cement operations from 75 per cent three years ago to probably 45 per cent this year, and diversification is unlikely to stop there. An upward movement in the price might have to await the next acquisition, but in the meantime the shares are still at a discount to the sector and deliver a handsome yield.

Frank Usher well ahead at six months

Frank Usher Holdings, fashion house, yesterday released its first set of results since it came to the USM in May. These showed pre-tax profits up 55 per cent to £694,000 for the six months to July 31, 1986, against £448,000 last time which excluded an exceptional loss of £55,000.

Turnover rose 39 per cent to £4.84m (£3.48m). The company was currently showing the spring/summer 1987 collections and it said indications were that orders from these shows would be greater than the spring/summer 1986 collections.

As indicated in the prospectus, there is an interim dividend of 1.5p net — a final of 3p has already been forecast.

First-half turnover and profit increased in both Frank Usher and Bowker Bruh Designs, in the home market and in all major export markets. As part of its policy of broadening its product range, the company has acquired an established label designed for the younger inexpensive market.

Bronx back in loss but merger talks under way

BY DAVID GOODHART

Bronx Engineering fell back into the red at the six months stage but announced that merger discussions were taking place with the fast-expanding private engineering group Verson International.

Bronx's shares were suspended at 30p.

Mr Tim Kelleher, chairman of Verson who is also on the Bronx board, said yesterday that he was confident of reaching agreement and that "discussions are moving rapidly."

Under the terms of the deal Bronx is expected to make a bid for Verson but it is likely, in effect, to be a "reverse takeover" by Verson.

In the year to January 31 1986 Verson made an operating profit of over £1m on turnover of £12.5m but is projecting a turnover of more than £22m for the current year.

In the past four years it has grown organically and through the acquisition of four separate engineering companies.

Mr Malcolm Roberts, the chairman of Bronx who also sits on the Verson board, said: "The Verson Group has access to new products in press automation and coil process fields and has sales offices in the USA, France, Belgium, Australia, India and Hong Kong.

"The directors believe that a merger with this non-competing but complementary group should strengthen the financial position of the group and produce significant new product and marketing opportunities."

Bronx crept into a profit of £154,000 on turnover of £10.9m for the year to November 30 1985 and the interim loss of £304,000 (£62,000) for the half year to end May was worse than expected.

Mr Roberts said this deterioration was largely due to a cost over-run on one contract and currency variations associated with a contract for China.

He added that a profit for the full year was unlikely and that the directors did not propose payment of an interim dividend (0.25p).

Bredero profits increase to £0.98m

With its pre-tax profits for the six months to June 30 up by 45 per cent to £979,000 (£675,000), Bredero Properties — which came to the market in June — is confirming pre-tax profits for the full year at not less than £2.8m.

Pre-tax profits for the year ending December 31, 1985, were £2.05m.

The company is considering a number of new development opportunities, including retail and residential projects in the south-east.

The benefit of agreed lettings for retail units in High Wycombe and St Albans will be reflected in the second half, it says.

The interim dividend is 1.5p and earnings per share were calculated at 4.8p, against 3.9p for the same period last year.

There is an extraordinary credit of £486,000.

Bremner chairman may go in struggle for power

BY CHARLES BATCHELOR

THE STRUGGLE for power at Bremner, the Glasgow department store group, appears set to take another new turn. The company's largest shareholder, City and Westminster Finance, plans to install a new chairman in place of the redoubtable Mr James Rowland-Jones.

City and Westminster, a small corporate finance company headed by Mr Andrew Graystoke, said it hoped to reach agreement with Mr Rowland-Jones on a handover of power. However, it is considering requesting an extraordinary shareholders meeting to nominate a new chairman to speed up an agreement.

City and Westminster will propose as chairman Mr Cochrane Duncan, chairman of Scottish Heritable Trust, a Glasgow based industrial and property company, and senior partner of Williams Duncan, a Glasgow accountants firm.

Mr Rowland Jones, who controls about 16 per cent of Bremner's equity, said: "If the price is right I will go but I'd stall if the price were not right. That is what chairmen are supposed to do. I am not going to hand over the keys to the first person who now knocks on the door."

Mr Rowland-Jones said he had held talks with Mr Greystoke and a further meeting was planned for Friday. But he had not been told about the plan for an extraordinary meeting.

Bremner yesterday announced its interim figures, showing a move from a loss of £480,900 to a profit of £109,000 in the six months ended July, 1986. This should be taken into account when any offer for Bremner's shares was to be made, Mr Rowland-Jones said.

Earnings per share amounted to 1.21p compared with a loss of 12.6p. The interim dividend has been doubled from 0.5p to 1p.

Bremner's shares rose 2p to 62p following publication of its results.

Mr Rowland-Jones won control at Bremner last April after ousting its former chairman and another director in a highly public row.

Extel is McCorquodale 'white knight'

By David Goodhart

Extel, the printing, news agency and publishing group, has emerged as the "white knight" which is discussing a possible merger with McCorquodale, the printing group facing a hostile £145m bid from Norton Opax.

Mr Alan Brooker, Extel's chairman, refused to comment yesterday, but an adviser to the company said: "There are obvious attractions in a deal but the price will have to be right."

A deal with McCorquodale could also have defensive benefits for Extel which is attempting to escape a bid from Mr Robert Maxwell who holds a significant minority stake.

Last April the Demerger Corporation failed in a £170m bid for Extel and the following month the Takeover Panel blocked a possible bid from Mr Maxwell for one year, ruling that he acted in concert with Demerger.

In the year to March 31 1986 Extel made pre-tax profit of £14.6m on turnover of £194m compared with McCorquodale's pre-tax profit of £10.2m on turnover of £160.2m to the year ended September 30 1985.

The two companies share the same merchant bank—Kleinwort Benson—and also had contacts over the US publishing company Dealers Digest. Extel has recently acquired Dealers Digest in which McCorquodale held a 25 per cent stake until earlier this year.

George Ingham & Co (Holdings), Halifax-based worsted spinner, saw operating profits in the first six months of 1986 up at £140,000, against £50,000 on improved turnover of £2.59m (£2.4m). Earnings per 10p share came out at 6.29p (2.16p) on a net basis and 6.6p (2.37p) nil distribution. Interim dividend is lifted to 0.75p (0.5p).

Rex Williams advances 11%

Rex Williams Leisure, maker and distributor of pool and snooker tables, reported pre-tax profits up by 11 per cent from £73,000 to £81,000 in the six months to the end of May 1986. And the directors of this USM-quoted company were confident that the full year would show a material increase in profit.

Turnover was up from £467,000 to £487,000 and earnings per 5p share came out at 0.57p (0.66p). The interim payment is being maintained at 0.42p net.

The second half would benefit from the inclusion of Cointrend which was acquired after the end of the first six months. That would result in an improvement despite the impact of the summer months on receipts from light-metered snooker tables.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corresponding div.	Total for year	Total last year
A. B. Electronic	8	—	6	10	8
Adwest Group	6.85	Nov 21	6.15	8.52	7.75
Bredero Properties int	1.5	Oct 31	—	—	—
Camellia Invts int	6	Oct 27	5	—	12
Bronx Engineering int	Nil	—	0.25	—	0.5
Central Secs int	Nil	—	Nil	Nil	1.58
Dunton Group	‡0.24	—	0.24	0.4	0.24
Early's of Witney int	0.32	—	0.32	—	1.32
FII Group int	4.5	—	4.25	6.75	6.25
Inchcape int	7.15	Jan 2	7.15	—	18.15
Geo Ingham int	0.75	—	0.5	—	1.5
Kwik-Fit Tyres int	1.25	Dec 1	1	—	2.1
Laughton int	0.8	—	—	—	1.5
John Menzies int	1.5	Jan 7	1.35	—	4.05
Rugby Portland int	3.1	Jan 2	2.9	—	6.4
Jefferson Smurfit int	¶1.12	Dec 31	1.12	—	3.28
Stag Furniture int	1.75	Nov 25	1.75	—	5.5
Utd Friendly int	5.1	Nov 26	5.1	—	17.2
Frank Usher int	1.5	Oct 31	—	—	—
Watts Blake int	1.62	Nov 28	1.48	—	4.6
Rex Williams Leis int	‡0.42	—	0.42	—	0.91
Wills Group int	2.5	Nov 6	2.5	—	6

Dividends shown in pence per share net except where otherwise stated. * Equivalent after allowing for scrip issue. † On capital increased by rights and/or acquisition issues. ‡ USM stock. § Unquoted stock. ¶ Irish pence throughout.

Stag below expectations

Stag Furniture increased pre-tax profits from £420,000 to £472,000 in the half year to June 27 1986. However, this did not reflect the good start made in the first quarter of the year.

The chairman, Mr P. V. Radford, said that trading results in the second quarter had deteriorated so that the pre-tax profit was below expectations. This was caused by reduced orders arising from quiet market conditions and manufacturing problems connected with the introduction of new models.

Turnover dropped from £15.36m to £15.14m. After tax £47,000 (nil) net profits amounted to £425,000 (£420,000). The interim dividend is maintained at 1.75p costing £139,000.

Dunton slips in second half

Second half profit from the Dunton Group of brick makers, property developers and civil engineers, fell to £30,000. This cut the total for the year ended May 31 1986 from £231,000 to £202,000.

The directors explained that the profit was hit by deferment of an anticipated property sale and the effect of the specially harsh winter, in conjunction with the prudent accounting policies.

The dividend is raised from 0.24p to 0.4p net, with a final of 0.24p.

The group, which is quoted on the USM, was steadily expanding its property development activities, they said, and an increasing contribution to profits may be expected.

In the past year turnover rose from £1.69m to £1.8m, principally reflecting increased activity in property development.

UK COMPANY NEWS

Smurfit profits on target despite Irish setback

BOOSTED by the performance of Smurfit Newsprint and by a I£4.38m exceptional credit, and despite a setback in Ireland, taxable profits of Jefferson Smurfit Group, Dublin-based printing, publishing and corrugated cases concern, were as forecast at I£24.1m (£22.6m sterling) for the first six months of 1986, against I£20.3m.

Sales amounted to I£506.45m, a rise of 6 per cent over last year's I£475.8m, reflecting the inclusion of Smurfit Newsprint—formerly Publishers Paper and acquired in February 1986 for $134m—but offset in a major way by the dollar exchange rate, the directors stated.

They added that since the acquisition the cash flow generated from that business has helped reduce the associated debt considerably.

Earnings per share were shown as 6p, compared with 5.5p while the interim dividend is unchanged at 1.12p—last year's final was 2.16p paid from pre-tax profits of I£36.71m.

The directors said they remained confident for the rest of the year, particularly in the US, and that the group would see record sales and profits for the full period.

A geographical analysis of sales and profits, before interest and tax, of I£31.57m (I£26.57m) shows: Republic of Ireland I£68.68m (I£75.18m) and I£3.34m (I£6.21m); UK I£38.22m (I£44.17m) and I£1.58m (I£1.19m); North America I£393.85m (I£352.56m) and I£21.22m (I£19.11m); Australia I£5.71m (I£3.63m) and I£1.05m (I£67,000). Exceptional profit I£4.38m—the surplus earned in certain share sales during the six months.

Jefferson Smurfit Corp of the US, performed well in comparison to the general trend in its sector, directors stated. The company was still engaged in ongoing cost control programmes and results so far were encouraging.

In Ireland both the very poor summer weather and high value of the Irish pound relative to sterling took their toll on performance particularly in print and packaging and corrugated activities.

The increase expected in consumer spending had not yet materialised, making business difficult in the distributing business, the directors stated.

In the UK while the company still had some problems progress was made at Burnley Board Mill which was now performing profitably.

● comment

Any discussion of Smurfit's interims must be somewhat eclipsed by the impending acquisition—likely to be sealed this week—of Container Corporation of the US in a clever $1.16bn off-balance sheet deal that would transform the group into the world's eighth largest paper company. The half-year figures are broadly in line with expectations: stripping out the exceptional gains on financial transactions, the trading performance is flat in punt terms, but the dollar declined sharply during the period and there were difficult trading conditions in the US corrugated container and liner market, offset to some extent by a good first time contribution from the new US newsprint acquisition. For the full year taxable profits of I£55m seem likely, putting the shares on a p/e ratio of 18 at last night's close of 248p and assuming a 30 per cent tax charge. The key question now is how good a deal Container Corporation will prove. Smurfit speaks enthusiastically about the quality of assets and scope for cost cutting, but the share price takes full account of the excitement.

US group buys a holding in GrandMet

By Charles Batchelor

Trafalgar Holdings, the US investment company headed by Mr Charles Knapp, confirmed yesterday that it had bought a holding in Grand Metropolitan, the British hotels and leisure group, but it denied the stake amounted to nearly 5 per cent.

"We never mention how much we own in any company as a matter of policy," said Mr Donald Reynolds, a director of Trafalgar.

GrandMet said it had not detected movements in its share register recently which would indicate that anyone had built up a substantial stake though it conceded recent share purchases might not yet show up.

Mr Reynolds said Trafalgar had made several attempts recently to meet Sir Stanley Grinstead, GrandMet's chairman, to discuss an offer for Grandmet's Intercontinental Hotel chain but Sir Stanley had refused.

Trafalgar was prepared to increase its original offer of $900m, Mr Reynolds said. He declined to comment on whether Trafalgar was hoping to put pressure on GrandMet to sell the hotels by buying its shares.

AB Elect recovers to £6.4m and looks for expansion

A.B. Electronic Products Group reported pre-tax profits for the year to the end of June 1986 up from £4.03m to £6.44m. However, last time the company took the write-off of its £4.56m Acorn Computer debt above the line and the pre-exceptional profit was £8.7m.

The result was achieved in turnover up 6 per cent from £122.07m to £129.87m. Earnings per share came out at 19.6p basic (13.4p) and 19.4p (13.3p) fully diluted, and the final payment is being raised to 6p (5p) making a total for the year of 10p (8p).

The directors said that diversity of activities continued to be central to the company's strategy. Total sales were now split between one third components and instrumentation. Automotive electronics was showing rapid growth in the UK and Germany and printed circuit and surface mount technology assembly work was at a high level.

The new Jaguar car incorporated AB's largest own-design project and while signicant start-up costs were still being incurred the venture was a major step forward, said directors.

They added that their five-year business plan showed an encouraging outlook and factory extentions were being planned in the UK, Germany and Austria. It was also proceeding with setting up a research and development centre at Newport, Gwent.

Mr Henry Kroch will relinquish the chairmanship on January 1 1987, becoming president and adviser to the company. He will be replaced by Mr Peter Phillips, the present deputy chairman.

The tax charge was £2.47m (£1.4m) and after the dividends absorbed £2.03m (£1.61m), the retained profit for the year was £1.94m against £1.02m last time.

● comment

Stripping out the 1984-5 Acorn-related write-off, AB Electronic's profits tumbled 26 per cent—ample testimony to the tight margins throughout most of its business, given that the depreciation charge was down on last time's £3.2m. The 6 per cent increase in turnover was slightly less than the market expected, and although the company is now supplying Acorn again (under its new owner Olivetti), sales to the computer industry generally are down to 40 per cent of turnover compared with over 60 per cent a year ago. How much scope the replacement business gives for improving margins remains to be seen. AB is enthusiastic about the impending launch of Jaguar's XJ40 (where it is supplying the automotive electronics) but it will be 1987 before business contributes significantly—perhaps to the tune of £2m—to profits. The good news is the improved balance sheet, with gearing down from the 60 per cent to the 40 per cent level thanks partly to a clear-out of stocks and lower capital spend. AB might clamber to pre-tax profits of £9m this year, putting the shares at 335p on a prospective PE of around 12. Cautious, but for the time being wise.

TSB share allocations

The allocation of TSB shares will be on the following basis:

A total of 3.7m applications for approximately 8.78bn shares were received on public application forms. Public application for up to 3m shares were balloted on a one in two basis at each level of application and shares were allocated to successful applicants as follows:

Applicants for 400 to 600 shares will receive 300 shares; 800—350; 1,000 to 2,000—400; 2,500 to 10,000—500; 15,000—600; 20,000 to 70,000—700; 75,000 to 1m—1 per cent of shares applied for; and 1.05m to 3m—10,000 shares. The 145 applicants for more than 3m shares will not receive an allocation.

A total of 1.3m applications were received on customer priority application forms for approximately 2.3bn shares, and were allocated as follows:

Applicants for 200 shares will receive 200 shares; 400—400; 600 to 1,000—500; 1,500—550; 2,000 to 6,000—600; 7,000—700; 8,000—800; 9,000—900; and 10,000—1,000 shares.

As stated in the prospectus, 5 per cent of the shares were reserved initially for the free offer of shares to employees and for priority applications from the group's employees and pensioners. A total of 25,910 applications for approximately 97m shares were received on priority application forms for employees and pensioners, and were allocated as follows:

Applicants for 200 to 4,000 shares will be satisfied in full; 4,500 to 7,000 will receive 4,400 shares; 8,000—4,600; 9,000—4,800; and 10,000—5,000.

Customer priority allocations numbered 1.28m and 612.7m shares were allocated; public allocations were 1.84m and 682.96m shares allocated; and employees allocations were 25,910 and 64.44m shares were allocated. Total number of allocations were 3.15m in respect of which 1.36bn shares were allocated. Taking in loyalty bonus shares retained of 135.73m and 4.17m shares reserved for the free offer to employees, meant a total of 1.5bn shares issued.

Suter doubles Thermax stake

Suter confirmed yesterday that it has nearly doubled its holding in USM - quoted toughened glass manufacturer Thermax to just under 24 per cent.

Mr George Dobson, chairman of Thermax, said that Mr David Abell, the chairman of Suter, had told him he was not planning to raise the stake or make a bid in the immediate future.

However, Mr Dobson said he would not rule out a bid at some stage and added that "agreement might be possible—he's impressed by us and we're impressed by him."

Early's lift profit by 88%

Early's of Witney, blanket and floor covering manufacturer, almost doubled pre-tax profit in the half-year to August 2 1986 from £114,000 to £214,000 on turnover up by £295,000 to £4.48m.

The increase in turnover was due to a 10 per cent lift in home trade sales when compared to the same period last year. Export sales showed no overall improvement, the directors said.

Bank borrowing was reduced and the interest payable has dropped from £41,000 to £22,000. The interim dividend remains at 0.315p and earnings per share came out at 2.84p (1.57p).

Process Systems loss

Process Systems, based in North Carolina and with a London listing for its "A" common stock, incurred a loss of $479,152 (£333,000) pre-tax for the year to end June 1986, compared with previous profits of $5.46m.

Total revenue fell from $14.95m to $13.41m—the company manufactures electronic software.

The dividend is being held at 0.25 cents per share. Earnings dropped from 5.72 cents to 0.04 cents.

The company spent heavily on new products ahead of an expected increase in sales. It will be maintaining a high level of research and development expenditure in the next few months.

UK COMPANY NEWS

Adwest rises 16% to top £10m

Adwest Group, the Berkshire based engineer, made further progress in the second six months ended June 30, 1986 to finish the year with pre-tax profits up 16 per cent from £8.7m to £10.06m. Turnover was 21 per cent higher at £93.78m, against £77.25m.

When reporting first-half profits ahead 10 per cent at £3.14m, the company said it expected full year results to show an improvement.

Although the company said it was confident for the future, a severe cutback in orders at Burmans (maker of steering gears and lubrication pumps) had necessitated the closure of part of that business. Associated costs arising in the year have been shown as an extraordinary charge of £1.7m.

The company said its income from properties would increase and although orders continued to be difficult to obtain throughout the engineering industries Adwest served, the company was constantly monitoring levels of expenditure to match the revenue available.

Earnings per 25p share rose from 15.4p to 20.3p and the final dividend is 6.83p making a total up from 7.75p to 8.53p net.

At the trading level, profits increased 30 per cent to £9.11m (£6.99m). A divisional breakdown showed: automotive £2.56m (£1.91m), defence £1.16m (—), electrical engineering £3.16m (£1.85m), engineering £1.14m (£1.52m) and rents and land sales £2.09m (£1.71m).

Pre-tax figures were after an interest charge of £289,000 (£432,000 received) and associates' contributions of £1.24m (£1.28m). Tax charge was lower at £3.56m (£3.75m) and after minorities, the attributable surplus came through at £6.33m against £4.8m.

• comment

Adwest started the last financial year with the advantage that its biggest division, the automotive one, was bouncing back from a period hit by strikes, yet it did not have an easy ride: a 33 per cent downturn in the world tractor market led to a £500,000 trading loss at Burmans and the same amount again was lost through an unsuccessful product launch at Warwick Pumps. Against this background the group did well to achieve the widely-predicted £10m and the market looked a little churlish in knocking 5p off the price to 208p. The rating, however, reflects the perception that there are unlikely to be many thrills in this year's results. Property is likely to put in a lively performance, but even with the elimination of the other divisions' losses it is hard to see much over £11.5m appearing for a p/e of 8½. At that level the shares begin to look attractive in spite of the unspectacular growth: the high asset value and fancy yield seem almost to be in the price for nothing.

FII meets forecast with 28% increase

FII Group, which recently became Britain's third largest shoemaker following its £19m acquisition of Lotus from the Burton Group, has turned in the expected rise in 1985-86 profits.

With pre-tax figures for the year ended May 31, 1986 up 28 per cent from £1.75m to £2.24m, the company has matched the forecast made in August at the time of the purchase. As predicted, there is a final dividend of 4.5p, making a total of 6.75p (6.25p) net—a total of not less than 7.75p has already been foreshadowed for the current year, on capital increased by the £17m right issue made to fund the purchase.

Turnover of the South Wales-based group, which also makes laboratory equipment, improved from £15.16m to £16.83m for the year 1985-86. Tax charge was lower at £451,000 (£544,000) and earnings per 25p share came to 34.8p (25.8p) basic, or 31.9p (nil) diluted. The tax cut mainly reflected the benefits of industrial building allowances.

Mr Monty Sumray, the chairman, said that the current year had begun well, with Fiona Footwear and Denley Instruments showing healthy increases in production and sales.

Although Lotus had been a member of the FII group for only one month, the chairman looked forward to it making a significant contribution to progress.

All group operating companies were budgeting for increased production, sales and profit, and Mr Sumray said he knew of no reason why these should not be achieved. He added that the group had a sound and thriving business with excellent potential for continued growth, both organically and by further acquisitions.

External sales of Fiona Footwear and Denley Instruments rose by 15 per cent in the year. Fiona had now completed its move into its new factory, one of the most advanced in the footwear industry, and production was now running at a record level. The move was carried out over a four-month period without any loss in production.

Denley has increased its market and customer base and extended its product range, with special emphasis on new instrumentation for the fast-growing clinical diagnostic market.

The activities of the loss-making merchanting division were phased out during the year and the division had now been closed. As indicated in August, full provision for closure costs have been incinded in extraordinary items of £347,000.

GA and Bank of Scotland in NZ venture

General Accident and the Bank of Scotland are to take a stake in Countrywide, New Zealand's second largest building society, which is about to convert itself into a bank.

This unusual deal results from the deregulation of New Zealand's building society movement, and the desire of Countrywide to bring in expertise on a broader range of financial products.

General Accident, which has been associated with Countrywide for almost 20 years, will take a 40 per cent stake. Bank of Scotland, for whom New Zealand will be new territory, will be taking 20 per cent.

The investments are subject to approval by Countrywide's members and various regulatory bodies. Legislation which will allow Countrywide to convert to a bank has also to be passed.

The exact value of the investment has yet to be decided. Countrywide has total assets of NZ$540m. Its net assets are NZ$55m, a figure which includes special investments placed in the society by shareholders prior to conversion.

Although the UK is about to deregulate its building societies along similar lines to New Zealand, Mr Bruce Pettullo, chief executive of tha Bank of Scotland, said yesterday that his bank was unlikely to make a similar investment in the UK,

All round growth at Kwik-Fit leads to 56% rise midway

A NEAR £2m advance in first half profits was announced yesterday at Kwik-Fit (Tyres & Exhausts) Holdings. And the directors forecast that results for the year February 28 1987 should show continued good progress ove rthe £8.6m of the previous year.

Turnover in the six months to August 31 1986 advanced by 29 per cent, from £41.83m to £54m, while the operating profit moved up 45 per cent, from £3.9m to £5.65m.

After lower income receivable, but also after a substantial cut in interest charges, the pre-tax profit came out 56 per cent higher at £5.35m, compared with £3.43m.

Interest charges fell from £1.11m to £846,000 as a result of a reduction in borrowings from £15m at last February to less than £7m by August 31. That reduction stemmed from bringing in £6.25m cash on the sale of a substantial portion of the group's investment property portfolio.

In the half year sales of all products were substantially up, the market share of tyres and exhausts increased significantly, and there was strong management and tight financial controls.

The group's operational management structure was further strengthened by the creation of five divisions.

The interim dividend is lifted from 1p to 1.25p net, and shareholders will also receive a one-for-four-scrip issue. For the year 1985-86 the total payment was 2.1p.

After tax £1.54m (£881,000) the net profit came to £3.81m (£2.55m) for earnings of 5.62p (3.89p) per share.

Mr Tom Farmer, chief executive of Kwik-Fit

German boost for Watts Blake

A GOOD performance from its German subsidiary, Fuch's sche Tongruben, was the main factor in an 18.8 per cent increase in pre-tax profits at Watts Blake Bearne & Co. for the first half of 1986, from £2.13m to £2.53m.

Gross external sales for tha six months amounted to £15.45m compared with £14.09m,

In tha UK home market Mr Cottrell said that there was a further increase in sales of ball clay to the ceramics industry, although this was largely offset by the reduction in the requirement of china clay for the fertiliser industry.

The china clay operations, however showed an improved result because of the continued strong demand from the paper industry.

The higher level of sales to tha German building ceramics indsutry, which contributed to Fuchs' first half figures, was unlikely to be repeated in the second period. The success of its sales of added value clays and strong market position were expected to give rise to a satisfactory results for the year.

After tax of £975,000 (£850,000) earnings per share were given at 7.88p, against 6.28p, while tha interim dividend is raised to 1.62p (1.475p)

Control Securities losses rise

A SURGE in interest charges from £0.84m to £2.74m left Control Securities, the property company headed by Mr Nazmu Virani, with sharply increased pre-tax losses of £3.38m for the year to March 31, 1986, against £1.62m previously.

However, at the operating level, profits before provisions rose from £575,000 to £1.06m. The interest rise mainly resulted from the acquisition of Ellesmere Port Properties and Ascot Holdings, which took place in the early part of 1985 under the previous management.

Virani Group and Zelva Anstalt (in which Mr Virani has a beneficial interest) control some 46 per cent of the company's share capital.

Mr Virani said yesterday that because of the weakness of sterling, a substantial part of the improvement in the forthcoming year may be affected due to existing foreign currency borrowings.

However, despite this, he was confident that as a result of its long term plan, Control would be brought into profitability within a reasonable period.

The company had already exchanged part of the foreign currency loans to sterling and said it intended to exchange tha balance as soon as possible. Control had reduced its borrowings since March 31 1986 and would continua to do so as a result of its policy of disposing of those properties which did not show a positive cash flow.

Since the year end, Control has acquired a portfolio of properties in return for an issue of shares. This had increased net assets by £3.7m.

Tax credit for the year was £481,000 (£331,000 charge) and stated loss per 10p share cama to 8.14p (9.18p). There is no dividend (1.575p interim in 1984-85).

BOARD MEETINGS

Interims: Amari, Arbuthnot Dollar Income Trust, Arbuthnot Japan Growth Fund, Laura Ashley, Biomechanics International, Cussins Property, Davidson Pearce, Dencora, Falcon Industries, Jacques Vert, KCA Drilling, Laing Properties, Northern Engineering Industries, Polymark International, Thurgar Bardex, Worcester.

Finals: Baillie Gifford Japan Trust, Framlington Managed Portfolio, Shadwick, Throgmorton Secured Growth Trust.

FUTURE DATES

Interims:	
Alva Investment Trust	Oct 6
Ambrose Investment Trust	Oct 21
Bio-Isolates	Oct 1
CCA Galleries	Oct 8
Cluff Oil	Oct 2
Datasery	Oct 8
Oruck	Oct 9
Finlay (James)	Oct 9
Grampian Holdings	Oct 8
International Thomson	Oct 3
Microlease	Oct 14
Midland Marts	Oct 8
N.M.W. Computers	Oct 2
Ruberoid	Oct 9
Walker (C.&W.)	Oct 6
Finals:	
A.C. Holdings	Oct 7
Amstrad Consumer Electronics	Oct 1
Paterson Zochonis	Oct 14
Peters (Michael)	Oct 8
Sanderson Murray and Elder...	Oct 6
Young (H.)	Oct 2

Wills Group jumps to £1m

Wills Group, a specialist in imports, financial and marketing services, announced pre-tax profits substantially up from £396,000 to £1.06m for the first six months of 1986 and expressed cautious optimism for the full year.

The discontinued speculative china and glass activity within the import division was responsible for losses of £106,000 and an extraordinary charga of £58,000. But imports had begun a return to profitability, with interest costs significantly lower.

The Trade Finance Division performed well despite further depreciation in both tha Australian and New Zealand currencies. At June 30 this would have reduced company reserves by about £300,000.

The CT Group, the technological equipment sales division, made a slow start to the year, but the company expects a sharp improvement in the second half.

Earnings per share was calculated at 8.48p per share as against 1.8 for the same period last year. The company's interim dividend remains unchanged at 2.5p per share.

Turnover was slightly lower at £56.44m compared with £57.64m.

Asda Property jumps 87% to £810,000

Asda Property Holdings showed an 87 per cent increase in first-half pre-tax profits from £434,000 to £810,000. Rental income rose by 29 per cent to £1.58m.

The company does not pay interim dividends but plans to recommend an increased dividend for the full year. Pre-tax profits in the year to December 31 1985 were £1.1m, while the dividend was 3p.

Earnings per share for the first half were 5p, against 2.9p for tha same period last year.

The company's residential portfolio continned to rise in value and the level of sales with vacant possession has increased.

Sales of trading properties rose to £4.8m and turnover from building contracting to £410,000.

Turnover increased by 45 per cent to £6.9m.

Utd. Friendly lifts interim

United Friendly Insurance, which underwrites main classes of insurance business, excluding marine and motor business, within the UK, is lifting its interim dividend by 1p to 6.1p net per 10p share.

Overall, premium income for tha first six month of 1986 improved to £80.3m, an increase of 3.7 per cent over last time's £7.45m.

On the lifa side, ordinary branch premium incoma of this USM company increased by 6.9 per cent to £8.37m while new life assurance premiums redneed by 0.7 per cent to £1.39m.

Industrial branch premium income decreased slightly to £44.4m (£44.81m) whila new life assurance premiums reduced from £7.75m to £7.35m.

General branch premium income increased by 11 per cent from £24.81m to £27.53m. Accident claims remained at a high level due to improved accident benefits introduced last year. Property claims, however, reduced slightly.

Commissions reverted to normal levels and the account indicated a small underwrting profit at the half year compared to a £0.6m loss for the first half of 1981.

In July, the company signed an agreement with a syndicate of banks, led by Schroders, for a £50m term loan facility. It said at the time that the funds would be used to finance variable rete mortgages for its endowment policy holders.

CAMELLIA INVESTMENTS warned that 1986 results of agricultural oriented companies would be adversely affected by weak tea prices coupled with lower crops and increased costs. Trading in fine art continuing at high level and overall, group profits for full year expected to be somewhet higher than 1985's £895,000 pre-tax. Interim 6p (5p). Disposal of Jatel to Lawrie Group, an associate, resulted in £2.5m gain which will be treated as extraordinary item in full accounts.

Laughton advances to £0.6m midway

Laughton & Sons, manufacfacturer of consumer goods in metal and plastics, lifted pre-tax profits from £424,000 to £612,000 on turnover up by £644,000 to £10m.

UK profits, the Australian subsidiaries produced profits high enough to increase the overall total by 44 per cent in the six months to the end of June 1986.

The interim dividend has been raised to 0.8p (0.7p) and it is proposed to maintain the final dividend at 0.8p. Tax amounted to £296,000 (£229,000) leaving group net profits of £316,000 (£195,000).

LONDON RECENT ISSUES

EQUITIES

Issue Price	Amount Paid up	Latest Renunc. Date	1986 High	1986 Low	Stock	Closing Price	+ or −	Net. Div.	Times Cov'd	Gross Yield	P.E. Ratio
§43	F.P.	—	59	49	‡Broad St. Grp.10p	50	+1	b1.1	2.2	2.1	20.7
§130	F.P.	17/10	195	152	‡Creighton Labs 20p	180	+2	U3.7	2.2	2.9	20.8
160	F.P.	24/10	146	123	Euro Home Products 5p	123	−2	R4.25	2.5	4.9	9.5
§105	F.P.	16/10	112	105	‡Eve Construction	105	−1	u4.5	3.2	6.0	7.4
134	F.P.	—	161	134	‡F & H Group 10p	142	......	L4.76	2.5	4.6	12.0
¶	F.P.	—	28	27½	Group Development	27½	......	—	—	—	—
150	F.P.	15/8	165	156	Harrison Inds. 10p	160	+2	g5.0	2.7	4.4	12.0
105.25	F.P.	—	108	104	India Fund £1	108	......	—	—	—	—
§135	F.P.	—	154	145	‡Local London Group 5p	152	−1	W5.0	1.8	4.6	17.1
§75	F.P.	24/10	79	73	‡Newage Trans 5p	73	−2	R3.5	2.5	6.8	8.3
§25	F.P.	22/10	25½	25½	Nth of Scotland Inv 10p	25½	......	—	—	—	—
135	F.P.	24/10	160	151	Sandell Perkins 10p	158	......	u3.8	2.9	3.4	14.5
—	F.P.	—	18½	9	Sutcliffe Speak Wrnts	15½	−1½	—	—	—	—
130	F.P.	21/8	173	137	‡TV-am 10p	166	......	R5.75	2.6	4.9	11.1
‖	F.P.	—	385	365	‡Utd. Trust & Credit £1	365	−5	u14.0	2.1	5.4	12.6
††	F.P.	—	100	85	Welsh Ind. Inv. Tst. 5p	85	......	—	—	—	—
125	F.P.	10/10	156	137	Yorkshire TV	137	−1	R6.25	2.4	6.4	9.3

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc. Date	1986 High	1986 Low	Stock	Closing Price £	+ or −
*£100	F.P.	29/10	100½	91½	Bournem'th & Dist Wtr 10⅛%Rd Db 1996	91½	−½
¶¶	F.P.	26/9	94p	80p	Hollis 252% Cnv. Subord. Ln. 1988 (2½p)	80p	......
§100	£10	—	9½	3¾	Mid-Sussex Water11% Red Deb2012-16	3¾	−1¾
§100	F.P.	10/10	110½p	105p	Mountleigh 5.25% Cnv. Cum. Prf.	106p	......
§99.937	£25	24/10	25¾	22¾	Nationwide 3¾% IL Ln. 2021	22¾	−1¾
—	F.P.	—	100⅛	98⅝	Do 9⅞% 7/9/87	98⅝	......
—	F.P.	—	100⅛	99¼	Do 10⅛% 21/9/87	99⅝	−⅝
§100	F.P.	29/10	100⅛	91½	Portsmouth Water 10⅛% RedDeb 1996	91½	−1
¶	F.P.	24/10	108½p	101p	Rush & Tomkins7.5%Cnv.Cum.Red.Prf.£1	101p	......
96.645	£25	8/1	24¾	17	Scot. Met. Prop. 10⅛% 1stMort.Deb.2016	17	−1½
—	F.P.	—	104p	104p	Scott. & Newcastle 7% conv. Pref. £1	104p	......
—	F.P.	—	98p	96p	Sutcliffe Speak 9½% Red. Cum. Prf.	98p	......
¶¶	F.P.	—	122p	115p	WCRS 5¾% Cnv. Cum. red. Pref. 1999	115p	−1
¶¶	F.P.	—	95p	92½p	Walker (C & W) 6½pc Cnv Cum Red Pref	94p	+1½
¶¶	F.P.	—	104p	102p	Williams Hldgs 5¾% Cum Cnv Prf	102p	−1

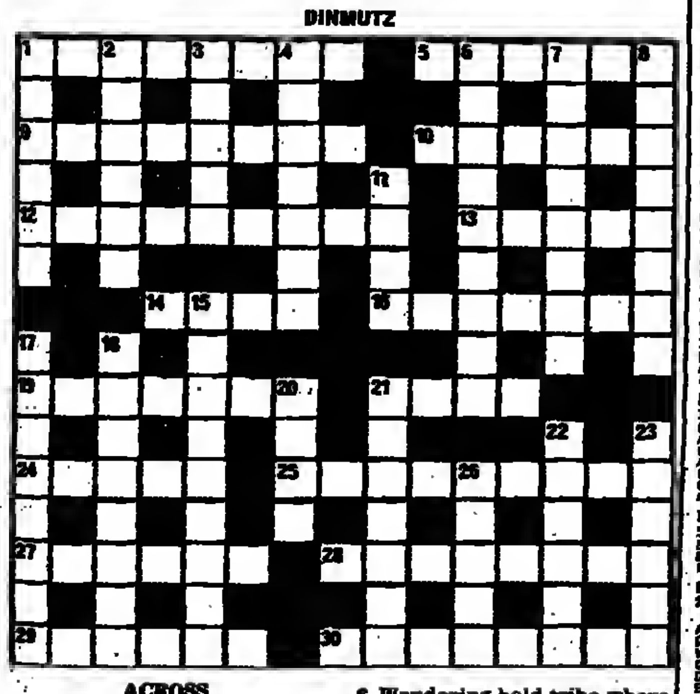
"RIGHTS" OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1986 High	1986 Low	Stock	Closing Price p	+ or −
120	Nil	—	18pm	17½pm	Brent Chemicals 10p	18pm	+½
195	Nil	—	18pm	4pm	Bunzl	4pm	−2
¶	Nil	24/10	1pm	½pm	Cambian Venture Cap. 5p	½pm	......
25	Nil	—	8pm	5pm	Christy Hunt	5pm	−3
75	Nil	—	30pm	24pm	Ind. Fin. & Inv. Corp.	29pm	−1
215	Nil	—	5pm	3½pm	New Court Nat.Res. 5p	3½pm	......
215	Nil	22/10	25pm	8pm	Persimmon 10p	8pm	−3
250	Nil	—	49pm	43pm	Tiphook 10p	49pm	+1
60	Nil	—	13pm	13pm	United Spring 10p	13pm	......
60	Nil	—	11	11	Western Selection 20p	11	......

Renunciation date usually last day for dealing free of stamp duty. a Annualised dividend. b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. F Forecast dividend cover on earnings updated by latest interim statement. H Dividend and Yield based on prospectus or other official estimates for 1987. L Estimated annualised dividend, cover and p/e based on latest annual earnings. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma Figures. t Indicated dividends; cover relates to previous dividend; p/e ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. ¶ Issued by tender. ‖ Offered holders of ordinary shares as a "rights." §‖ Introduction. ** Issued by way of capitalisation. § Placing price. §§ Reintroduced. ¶¶ Issued in connection with reorganisation merger or takeover. ▮ Allotment price. ‡ Unlisted securities market. †† Official London listing. ‡‡ Including warrants entitlement.

FT CROSSWORD PUZZLE No. 6,138

DINMUTZ



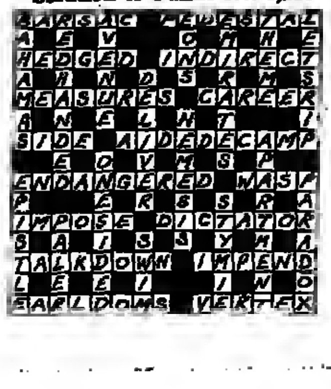
ACROSS

1 Slow tidal upsurge on circle-line (8)
5 A pitcher for the orchestra before they play? (6)
9 Comrade behind the curtain? (8)
10 Little fellow with paper round is chilled (6)
12 Pieces in personal column? (9)
13 Eat small amount—it makes sense (5)
14 Man, for instance, lies about (4)
16 It is bound to contain noble names (7)
19 Marvellous thing—motorway clear, it turns out (7)
21 Building in Slough (4)
24 Reasonable carbon pile (5)
25 Piece of chicken for battering? (9)
27 This prophet is first-class at Hebrew beginnings (6)
28 A rotten year, perhaps, for the lawyer (8)
29 Scots' cries heard in welcomes (6)
30 Rusty, reliable fellow and educated, they say (5-3)

DOWN

1 Given a case for grammar-school (6)
2 Irritable in such uniform? (6)
3 Compact found in Battersea (5)
4 Book of "The Twelfth Man"? (7)
6 Wandering bald tribe where fliers come down (4-5)
7 I am hoarding something indecent (8)
8 Fourteenth century in Italy (not Crete, surprisingly) (8)
11 Principal role chosen by Bassanio? (4)
15 Toady from whom we should expect phony acts? (9)
17 Material gathered for artists to put on? (8)
18 Insecticide ingredient destroyed a sea-tern (8)
20 Puts paid to ambitions (4)
21 Hasty run from Stirling's first ball that turns sharply (7)
22 Victor West over target area (6)
23 Sanctioned in America? (6)
26 Tough guy of the old school (5)

Solution to Puzzle No. 6,137



AUTHORISED UNIT TRUSTS

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS & INSURANCES

Waverley Asset Management Ltd (a) (c) (g)
13 Charlotte Sq, Edinburgh 031-225 1551

Australasian Gold	23.1	24.6	-0.3	0.15
Pacific Basin	19.7	21.0	---	0.7
Canadian Balnd Grwth	58.8	62.8	-0.1	0.98
Gimic Mac	101.6	105.3	---	7.1

WestAvon Unit Trust Managers Ltd(a)(c)
9 Portland Square, Bristol BS2 8SS 0272 428431

British Smllr Co's (z)	56.8	58.4xd	-0.6	1.5
British Growth (z)	64.0	66.6xd	-0.6	2.5
British Income (z)	65.6	67.5	-0.6	4.75
British Extra Yield(z)	49.6	51.0	---	7.0

Whittingdale Unit Trust Managers
2 Honey Lane, London EC2V 8BT 01-606 9085/6

Short Dtd Gilt Fd	67.5	68.6	-0.2	—
U.S. Govmnt Bond Fd	50.511	0.514	---	—

Windsor Trust Mngrs Ltd
83 Kingsway, London, WC2B 6SD 01-405 8331

Cap&Inc & Equity Tst	48.1	51.2	-0.2	7.70
Growth Trust	50.8	54.1	-0.1	2.29
Income Trust	52.7	56.1	-0.1	5.35

Wright Seligman Fund Managers Ltd
11 Blomfield St, London EC2M 7AV 01-588 0592

Growth Fund	69.1	72.6	---	2.90

Weekly dealing day Tuesday

The Yorkshire General Trust
Woodsome Pk, Fenay Bdge, Huddersfield 0484 602250

Y.G.T.	125.3	133.4	-0.2	3.25

INSURANCES

AA Friendly Society
(Investment Mngt M & G Inv Mngt Ltd)
PO Box 93 Cardiff CF1 4NW 0222 35542

AA Friendly Sy Aug 12	—	105.9	---	—

Abbey Life Assurance Co Ltd
80 Holdenhurst Road, Bournemouth 0202 292373

Prop. Ser. 1	207.2	218.2	---	—
Equity Ser. 1	98.8	104.0	-0.3	—

City of Edinburgh Life Assurance
46 Charlotte Sq, Edinburgh EH2 4HQ 031-225 1655

Ivory & Sime Bond	103.0	109.0	---	—
Risk & Reward Bond	123.0	130.0	---	—
Murray Johnstone Fd	121.0	128.0	---	—
Money Market Fd	104.0	110.0	---	—
Ivory & Sime Pens Fd	102.0	108.0	---	—
Risk & Reward Pens Fd	105.0	111.0	+0.3	—
Murray J'stone Pens Fd	118.0	125.0	---	—
Money Market Pens Fd	104.0	110.0	---	—

City of Westminster Assurance
Sentry House, 500 Avebury Boulevard, Cent Milton Keynes MK9 2NU Tel: 0908 690888

Current Series				
Property Fund	113.0	[illegible]	[illegible]	—
Money Fund	222.9	[illegible]	[illegible]	—
Managed Fund	402.2	[illegible]	[illegible]	—
Equity Fund	247.8	[illegible]	[illegible]	—
Fixed Interest Fund	140.4	[illegible]	[illegible]	—
Far East Fund	221.0	[illegible]	[illegible]	—
North American Fund	167.9	[illegible]	[illegible]	—
Natural Resources Fund	141.2	[illegible]	[illegible]	—
Pension Managed Fund	377.0	[illegible]	[illegible]	—
Pension Equity Fund	234.6	[illegible]	[illegible]	—
Adventurous Mngd Fd	113.7	[illegible]	[illegible]	—
Balanced Mngd Fd	109.9	[illegible]	[illegible]	—
Conservative Mngd Fd	105.8	[illegible]	[illegible]	—
European Fund	105.0	[illegible]	[illegible]	—
International Fund	114.2	[illegible]	[illegible]	—
S.U.N. Flagship Fd	122.5	[illegible]	[illegible]	—

For other prices please telephone [illegible]

Clerical Medical/Fidelity International
Narrow Plain, Bristol BS2 0JH 0272 290566

Investment Funds				
Mixed	130.3	137.2	-0.7	—
Equity	145.7	153.4	-0.9	—
Property	109.2	115.0	+0.1	—
Gilt & Fixed Interest	105.8	111.4	-1.9	—
Indexed Securities	98.4	103.6	-0.2	—
Cash	107.7	113.4	+0.1	—
North American	105.2	110.8	-1.0	—
Far East	134.6	141.7	+1.8	—
International	124.6	131.2	-0.3	—
Special Situations	142.0	149.5	-1.2	—
International Income	136.9	144.2	-1.7	—
American Income	115.0	121.1	-1.4	—
European	148.2	156.1	-0.1	—

Flexible Retirement Plan

INSURANCE, OVERSEAS & MONEY FUNDS

[illegible]

MANAGEMENT SERVICES

[illegible]

OFFSHORE AND OVERSEAS

[illegible]

Money Market Trust Funds

[illegible]

Money Market Bank Accounts

[illegible]

Benchmark Trust Ltd
9 Henrietta Place, W1M 9AG. 01-631 3313
Cap Chq Deposit Acc 9.25 6.91 10.04 Mth

Charterhouse Bank Limited
1 Paternoster Row, EC4M 7DH. 01-248 4000

Sterling	9.50	7.10	10.33	Mth
U.S. Dollar	5.375	4.02	5.76	Mth
German Marks	4.00	2.99	4.27	Mth
Swiss Francs	1.50	1.12	1.59	Mth
Japanese Yen	4.00	2.99	4.27	Mth

Citibank Savings
St Martins Hse, Hammersmith Grove 01-581 1422
Money Market Plus Top rate 7.10 10.18 Mth
For other rates please 'phone our Rateline: 01-581 0629

Co-operative Bank Cheque & Save
78-80 Cornhill EC3 01-626 6543

£500-£2,500	6.69	5.00	7.10	Qtr
£2,500 +	9.38	7.00	10.12	Qtr

Dartington & Co Ltd
Dartington, Totnes, Devon TQ9 6JE 0803 862271
Money Mkt Acc 9.50 7.10 10.30 Qtr

Henderson/Bank of Scotland
38 Threadneedle St EC2P 2EH. 01-628 8060
Money Mkt. Cheque Acc. 9.30 6.95 10.11 Mth

Legal & General (Money Mngrs) Ltd
355 Euston Road, NW1 3AG 01-388 3211
High Int Dep Acc 9.70 7.25 10.39 6-mth

Lloyds Bank PLC
71 Lombard St, London EC3P 3BS 01-626 1500
HighIntCheque Account 9.00 7.20 10.43 Qtr

Lombard North Central PLC
17 Bruton St, W1A 3DH 01-409 3434
14-Day Notice 9.00 6.72 9.46 —

M & G/Kleinwort Benson
M & G Hse., Victoria Rd., Chelmsford 0245 266266
H.I.C.A. (£2,500+) 9.01 6.73 9.78 Daily

Midland Bank plc
PO Box 2, Sheffield. 0742 20999 Ext 8635

High Int Chq Acc	9.03	6.75	9.75	Qtr
£10,000 +	9.36	7.00	10.12	Qtr

M.I.M. Britannia Ltd
74-78 Finsbury Pavement, EC2A 1JD 01-588 2777
Cater Allen 9.13 6.82 9.9128 —

NatWest Special Reserve Account
41 Lothbury, London, EC2P 2BP 01-256 9983

£2,000 to £9,999	9.25	6.875	9.94	Qtr
£10,000 and above	9.375	7.00	10.12	Qtr

Oppenheimer Money Mgmnt Ltd
66 Cannon St, EC4N 6AE 01-236 1425
Money Mngt. Acct 8.125 6.07 — 3-Mth

Phillips & Drew Trust Ltd
120 Moorgate, London EC2M 6XP 01-628 9771
High Int Chq Acc 9.125 6.82 9.86 Qtr

Provincial Trust
30 Ashley Rd, Altrincham, Cheshire 061-928 9011
High Int Chq Acc 10.00 7.48 10.90 Mth

Royal Bank of Scotland plc
42 St Andrew Sq, Edinburgh EH2 2YE. 031-557 0201
Premium Account 9.37 7.00 10.13 Qtr

Save & Prosper/Robert Fleming
20 Western Rd, Romford RM1 3LB. 0708 66966
H.I.B.A. 9.08 6.75 9.83 Daily

Tyndall & Co
29-33 Princess Victoria St, Bristol 0272 732241

Demand Acc	9.96	7.45	10.75	Qtr
Money Acc	9.36	7.00	10.12	Qtr

J. Henry Schroder Wagg & Co Ltd
Enterprise House, Portsmouth 0705 827733

Special Acc	8.25	6.17	8.96	Mth
Over £10,000	8.50	6.35	9.21	Mth

Western Trust & Savings Limited
The Moneycentre, Plymouth PL1 1SE 0752 224141
High Int Chq Acc 9.94 7.43 10.76 Qtr

Wimbledon & South West Finance Co Ltd
114 Newgate St, London EC1A 7AE. 01-606 9405
High Int Cheque Acc 11.0 8.22 11.96 Qtr

NOTES—Gross: rate in force exempt from composite rate of tax. Net: Actual rate after deduction of CRT. Gr Equiv CAR: Gross equivalent to basic rate taxpayers—compounded annual rate. Int Cr: frequency interest credited.

NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars. Yields % (shown in last column) allow for all buying expenses. Prices of certain older insurance linked plans subject to capital gains tax on sales. a Offered prices include all expenses. b Today's prices. c Yield based on offer price. d Estimated. g Today's opening price. h Distribution free of UK taxes. p Periodic premium insurance plans. s Single premium insurance. x Offered price includes all expenses except agent's commission. y Offered price includes all expenses if bought through managers. z Previous day's price. ¶ Guernsey gross. # Suspended. ♦ Yield before Jersey tax. † Ex-subdivision. ‡‡ Only available to charitable bodies. ♦ Yield column shows annualised rates of NAV increase. xd ex dividend.

TRADITIONAL OPTIONS

3-month call rates

Industrials	p		
Allied-Lyons	38	NEI	23
Amstrad	23	Nat West Bk.	48
BAT	35	P & O Dfd	45
BOC Grp.	28	Plessey	18
BSR	11	Polly Peck	16
BTR	28	Racal Elect.	16
Babcock	17	RHM	20
Barclays	45	Rank Org Ord	45
Beecham	40	Reed Intnl	75
Blue Circle	55	STC	16
Boots	22	Sears	12
Bowaters	30	TI	42
Brit Aerospace	45	Tesco	32
Brit. Telecom	17	Thorn EMI	40
Burton Ord	28	Trust Houses	15
Cadburys	17	Turner Newall	18
Charter Cons.	22	Unilever	120
Comm Union	28	Vickers	40
Courtaulds	26	Wellcome	17
FNFC	17	**Property**	
Gen Accident	75	Brit Land	16
Gen Electric	17	Land Secs	30
Glaxo	85	MEPC	32
Grand Met.	34	Peachey	24
GUS 'A'	85	**Oils**	
Guardian	75	Brit. Oil & Min.	$2\frac{1}{2}$
GKN	32	Brit Petroleum	48
Hanson Tst.	16	Burmah Oil	30
Hawker Sidd.	45	Charterhall	4
ICI	55	Premier	$3\frac{1}{2}$
Jaguar	38	Shell	55
Ladbroke	32	Tricentrol	11
Legal & Gen	24	Ultramar	18
Lex Service	28	**Mines**	
Lloyds Bank	38	Cons Gold	40
Lucas Inds	52	Lonrho	24
Marks & Spencer	18	Rio T Zinc	50
Midland Bk.	44		
Morgan Grenfell	30		

A selection of Options traded is given on the London Stock Exchange Report Page.

COMMODITIES AND AGRICULTURE

Ukasta estimate confirms bumper British harvest

BY STEFAN WAGSTYL

THE 1986 UK harvest, at 24.85m, is the second largest on record, the United Kingdom Agricultural Supply Trade Association said yesterday.

Ukasta's estimate is just above the figure published by the National Farmers' Union and marginally below that of the Ministry of Agriculture.

The total compares with a crop of 22.5m tonnes last year and an all-time record of 26.6m in 1984.

Mr Tony Duffield, Ukasta president, said the harvest was about 7m tonnes above the needs of the home market. He urged grain traders to take every advantage of export opportunities.

Ukasta put the barley crop at 10.15m tonnes, wheat at 14.25m tonnes and oats at 450,000 tonnes. The harvest was gathered late because of bad weather, including hurricane Charlie, which gave some crops a buffeting and had a devastating effect in certain areas.

The quality of the barley crop was above last year's and almost as good as 1984, said Mr Duffield. Yields were considerably better than 1985. In Scotland the spring barley crop recovered after a disaster in 1985.

The quality of wheat was also so generally good, but was hit in Devon and Cornwall by bad weather in July and August.

Ukasta put the oilseed rape crop at 904,000 tonnes, compared with the NFU's estimate of 930,000 tonnes.

Looking at the European harvest, Mr Duffield said the latest figures indicated an EEC harvest of 150m tonnes. There were good crops of wheat in West Germany, France and Belgium, although the French harvest was hit by drought. Spain had been hit by drought which had limited the wheat harvest to 23 per cent below 1985 levels and barley to 33 per cent below. Spain could be a market for 2m to 2.5m tonnes of wheat, said Mr Duffield.

But he warned that exports from other EEC countries might hit the British market because British farmers were slow to bring high quality wheat to market. "If farmers continue to hold on to supplies and only release lower quality varieties, millers will have little option other than to turn to EEC imports." Then prices would fall and the wheat would have to go into the EEC's intervention stores.

Gill and Duffus quits LME

By Stefan Wagstyl

GILL AND DUFFUS today becomes the latest trading company to leave the London Metal Exchange in the wake of the tin crisis.

Dalgety, the food and agricultural group which last year bought Gill and Duffus, said two weeks ago it was pulling out of metal trading when it published its results for the year to the end of June, including extraordinary losses of £28m incurred in the tin market collapse.

Mr Terry Pryce, chief executive, said withdrawal from the LME followed logically after the group's decision to close Gill and Duffus's metal trading business. "You won't hear of us in metal trading again."

Gill's departure cuts the number of full trading members of the London Metal Exchange to 21. Before the tin crisis there were 28.

● Gerald Metals, a subsidiary of Gerald Commodities, will become a full floor member of the International Petroleum Exchange and begin trading in early November.

Gerald Commodities has bought one of the 35 seats on the IPE in readiness for the launch of pit trading when the IPE moves to Commodity Quay, St Katharine's Dock.

● Restrictions on farming imposed after the Chernobyl nuclear disaster will have to stay in force, possibly for months, the Ministry of Agriculture said yesterday.

There were still pockets of high radiation in England, Scotland and Wales. Sheep in two areas of Cumbria were still recording high levels of caesium, almost four times the regulatory level at which action needs to be taken.

There are still 500,000 sheep affected by the Government's emergency movement and slaughter ban, more than four months after the Chernobyl accident. Ministry officials said they did not know when the restrictions could be lifted.

Strike may hit Canadian sales

BY BERNARD SIMON IN TORONTO

CANADA MAY be forced to curtail grain exports later this week unless new measures are taken to overcome an industrial dispute which has crippled the main Great Lakes grain terminal at Thunder Bay.

Grain industry sources said that, for the first time since the work stoppage by grain handlers began on September 3, stocks in elevators on the lower St Lawrence River have dropped to unacceptably low levels. The St Lawrence ports are used to trans-ship grain from lakers to ocean-going vessels.

Mr Peter Thomson, chairman of the Winnipeg-based Grain Transportation Authority, said that "the crunch is coming because supplies are being drawn down rather rapidly." A trader said that the Canadian Wheat Board, which markets most of Canada's grain exports, will have "serious problems" meeting requirements within a week.

Fears that Canada may forfeit foreign markets at a time of over-supply and intense competition in the world grain trade have increased pressure on the Federal Government to legislate the Thunder Bay handlers back to work when Parliament reconvenes on October 1.

Mr Charles Mayer, the Wheat Board Minister, said after meeting 20 farming groups last week that Ottawa is considering action to end the wage-related work stoppage. The western Canadian economy is already reeling from the fall in oil and gas prices.

Canada is the world's second biggest wheat exporter, accounting for about 20 per cent of total trade. In spite of damp harvesting conditions in the past few weeks, a record crop of around 31m tonnes is expected on the prairies.

High costs have discouraged use of alternative export routes opened since shipments through Thunder Bay came to a halt. Only one private company has diverted barley exports to the US port of Duluth.

Exporters have also been reluctant to use bulk handling facilities at Thunder Bay normally reserved for other bulk commodities, like potash. A rail route to the St Lawrence ports by-passing Thunder Bay raises transport costs by about C$10 (£5) per tonne.

China to offer gold for barter trade

CHINA HAS told a top-ranking business delegation from Japan that it will offer gold instead of goods in barter deals, reports Reuter from Peking.

Japanese officials said Chinese State Councillor Zhang Jingfu told the delegation, from the Japan-China Association on Economy and Trade, that China has significantly increased gold production and will offer it in exchange for Japanese exports.

They said a Japanese trading firm is considering such an offer. "It is more attractive for Japanese firms to accept gold than Chinese goods which they cannot sell in Japan or in third markets," one official explained.

The gold, 99.9 per cent pure, is in the form of ornaments or jewellery, not ingots, export of which requires time-consuming authorisation from the People's Bank of China.

The international purity standard is 99.99 per cent, so Japanese buyers would have to do some processing before reselling it, the officials added.

China does not publish figures of its gold production. Hong Kong traders said in August that China's gold sales to the colony rose sharply in the first five months, partly to offset a foreign exchange shortfall.

LONDON METAL EXCHANGE WAREHOUSE STOCKS

(Changes during week ending last Friday)

	(tonnes)
Aluminium	−950 to 124,925
Copper	+2,050 to 143,850
Lead	−1,850 to 39,000
Nickel	−90 to 8,862
Tin	−335 to 44,440
Zinc	−1,050 to 27,450
	(ounces)
Silver	+180,000 to 25,424,000

Flaws in Jopling's grain plan

FARMER'S VIEWPOINT

By John Cherrington

IT CANNOT be denied that Mr Michael Jopling, Britain's Agriculture Minister and the current president of the EEC Farm Council, will be taking a step in the right direction today when he urges his Continental colleagues to adopt a land set-aside programme aimed at reducing the Community's growing mountain of unwanted grain. But I doubt that many farmers would be induced to take advantage of the programme under the terms envisaged. And it could even result in more grain being grown than ever.

The proposal, to be put to an informal meeting of EEC Farm Ministers in Bowness on Windermere, Cumbria, is to offer farmers about £76 an acre to leave fields fallow for a year or £16 to plant them with crops not supported by the EEC. I must confess, however, that I know of no viable crop which is not supported in some way under the Community's common agricultural policy (CAP).

Some payment would be essential as most farmers have standing costs for interest charges and general overheads of well over £80 an acre. So they would undoubtedly think twice before committing themselves to cutting their output by the 10 per cent or so required unless they could be guaranteed a higher return for the crops grown on the remaining acreage. The US set-aside includes a very definite inducement in that the farmer does not get his guaranteed price unless the requisite acreage has actually been taken out of all production.

The Jopling version is that the land should be fallowed annually in rotation, and on this point there seems to be a lack of appreciation of what fallowing really means. It is a definite farming operation dating from historic times, when exhausted land was allowed a rest period during which it could recover fertility.

During the 1930s it was extensively practised as an alternative to cropping with otherwise unsaleable crops or those under quota like sugar beet and potatoes. On my own farm I had a regular rotation designed to maximise wheat production. A fallow increased soil fertility and was said to be as good for the following crop as a coat of dung.

But it was not simply a matter of leaving the land untouched during the period—it was kept clean of weeds by cultivation and ploughing. The system was only justified by the expectation of heavier crops in the future. Not many fertilisers were used in this period and rents and other costs were very low indeed. Fallowing is still practised in Canada and the US for purposes of moisture conservation and weed control and to build up the organic structure of the soil by incorporating crop residues and weeds.

I could see it fitting quite well into my arable rotation. It would provide a good break from diseases and would also kill many of the weeds already infesting the fields which can only be dealt with now by using expensive chemicals.

At present these costs are making the most intensive systems quite difficult, mainly because the alternative break crops, as they are called, are very marginal in profitability.

The proposed set-aside fallowing is deliberately to be made rotational. So that farmers would not be tempted just to remove their least productive land from growing cereals. There would be no question of just leaving the land simply to grow weeds, while the farmer put the cash in his pocket. It might well suit the environmental lobby to see 10 per cent of arable land turned into scrub and thistles. But it would provide a source of infection of all sorts of unwanted plant and animal infestations into the surrounding farm area.

Administering the scheme would be very difficult. In Britain there is the precedent of the last war's arrangements for the control of all cropping, through existing advisory network. This, I believe, was unique in Europe and could probably be reinstated again. But I would have thought it to be impossible among the small farms of Italy, West Germany and so on.

However, something has simply got to be done. The overall grain surplus in the Community is expected to rise to 80m tonnes by 1992 according to the latest estimates, and there is nothing in this suggestion which will do much to reduce that prospect. And this is far from being an isolated problem, those of sugar, milk, beef and oilseeds are becoming equally intractable.

The only sensible suggestion really to make much sense was by Mr Peter Walker when he was Britain's Minister of Agriculture. Some years ago in a speech at the Oxford Farming Conference, he outlined a scheme which would have made each member state responsible for its own farming output. Each would have been given a quota of production which would have been sold at Community prices and then each member state would have to be responsible for the cost of its own excesses.

The fact that this burden is borne by Community funds at present gives member governments little incentive to count the cost of over-production. The shifting of financial responsibility for surpluses to national exchequers would surely prove a powerful influence for restraint.

It has been claimed that such a reform would effectively destroy the CAP and thus the Community itself—but I regard that as utter nonsense. The principal threat to the survival of the EEC is the financial strain caused by the inexorable over-production encouraged by the present system.

Shepherding the Community's wayward flock

BY TIM DICKSON

EEC FARM Ministers mingled with a motley collection of Cumbrian hill farmers, a party of journalists and several hundred local sheep yesterday at a splendidly organised entertainment laid on in the English Lake District by Mr Michael Jopling, Britain's Agriculture Minister and current president of the EEC Farm Council. In this latter role, a confident and relaxed Mr Jopling had invited his EEC counterparts to Bowness-on-Windermere for an "informal" meeting to discuss the perennially tricky subject of how to halt rising agricultural surpluses.

Such sessions, which take place every six months, are now well-established additions to the formal meetings in Brussels and Luxembourg, where farm policy is thrashed out. They are designed to provide opportunities for greater social contact between Ministers away from the often highly-charged political atmosphere of the negotiating table.

The main obstacle to reform of the common agricultural policy (CAP), of course, is getting the agreement of 12 member states with deeply entrenched and often competing national interests.

Yesterday, Mr Jopling, clutching a carefully sculpted shepherd's crook, which seemed to be burning with symbolic significance, looked the part of a strong council president.

Watching him strut proprietorially round High Yewdale Farm, as various demonstrations were acted out for his visitors—a bull parade, sheepdog handling, and Cumberland and Westmoreland wrestling, to name but three—it was possible to imagine him knocking heads firmly together and bullying his colleagues into submission, when the serious talking subsequently began.

Then there was a nearby display of Herdwick Ewes, which again seemed intended to emphasise Mr Jopling's tactical superiority. These are a special Cumbrian breed which are, as a rule, older than most other sheep when they are first served (or tupped) by the ram. They were in the news a couple of years ago, when Mr Jopling championed their cause during the price-fixing negotiations ensuring that they qualified for an annual EEC subsidy.

At the end of the proceedings, in a whirl of TV cameras and flashing light-bulbs, Mr Jopling produced a bundle of shepherds' crooks like his own and presented them individually to his guests. France's Mr Guillaume initially looked a bit bemused and Mr Austin Deasy, Ireland's Farm Minister, a little embarrassed. But slowly the colour came back to their faces, their eyes lit up with pleasure.

Mr Jopling clearly hopes that the crooks will help him to shepherd the EEC's political flock in the direction of much-needed CAP reform. Sceptics, however, might expect them to be used in a continuation of the old story of agricultural policy being pulled in 12 different directions at the same time.

LONDON MARKETS

THE COMMODITY markets saw plenty of nervous and hesitant trading yesterday as investors sized up the possible effects on currencies of the outcome of the G5 meeting of Finance Ministers from leading industrial countries in Washington. The precious metals markets were especially wary with prices falling away slightly from their recent highs as some investors judged that concern over the future of South Africa and the prospect of imminent severe economic sanctions were easing somewhat. Platinum closed down $17 an ounce in London at $566.50 and gold down $8.25 an ounce at $428.50. Silver which has recently shown renewed signs of life slipped back 8.85p to close at 392p an ounce. On the London Metal Exchange, prices were little moved by the weekly stocks figures which showed declines in most metals. The soft commodity markets were quiet, with coffee prices falling a little as concern about the Brazilian crop receded.

REUTERS INDICES

Sept 26	Sept 25	M'th ago	Year ago
1546.5	1546.7	1463.2	1709.2

(Base: September 18 1931=100)

DOW JONES

Dow Jones	Sept 26	Sept 25	M'th ago	Year ago
Spot	126.24	124.27	—	113.18
Fut	126.76	125.43	—	116.85

(Base: December 31 1931=100)

MAIN PRICE CHANGES

In tonnes unless otherwise stated.

	Sept. 29 1986	+ or −	Month ago
METALS			
Aluminium			
Free Market	$1250/510	−10	$1270/290
Copper			
Cash Grade A	£943.5	+5.25	£876.75
3 mths	£966.25	+5	£892.10
Gold Troy oz	$428.5	−8.25	$381.70
Lead Cash	£277.75		£272.75
3 mths	£282.25		£276.75
Nickel			
Free Mkt	180/185c		171/191c
Palladium oz	$126.75	−0.25	$144.50
Platinum oz	$566.0	−17	$628.00
Quicksilver†	$140/150	+25	$135/145
Silver troy oz	392.00p	−8.85	349.30p
3 mths	402.35p	−8.10	357.50p
Tin			
free mkt	[illegible]	−15	[illegible]
Tungsten	$61.25		$55.63
Wolfram 22.04lb	$38/42		$35/45
Zinc	£610	+1.5	£574
3 mths	£610	−0.25	£579
producers	$920		$840/880
OILS			
Coconut (Phil)	$270		$230
Palm Malayan	$230v		$202.5
Copra (Phil)	$170x		$140
Soyabean (U.S.)	$163x		$167
GRAINS			
Barley Fut. Jan.	£111.4	−0.2	£107.80
Maize	£145.50	−8.5	£153.00
Wheat Fut. Jan.	£110.7	−0.5	£107.60
No. 2 Hard Wint.	‡		‡
OTHERS			
Cocoa Ft. Dec.	£1522.5	+8	£1561
Coffee Ft. Nov.	£2430	−38	£2382
Cotton A Ind.*	47.65c	−0.7	48.30c
Gas Oil Nov.	$125.25	+1.25	$157.5
Rubber (kilo)	65p	−0.75	60.5p
Sugar (raw)	$124.0w	−1	$122
Wooltops 64s	458p kilo		487p kilo

‡ Unquoted. † Per 75-lb flask. c Cents a pound. x Oct. * Cotton outlook. y Nov. z Sept-Oct. w Oct-Nov. v Dec.

ALUMINIUM

	Unofficial close (p.m.) £ per tonne	+ or −	High/Low
Cash	833-4	+6.5	835
3 months	814-5	+0.25	817/810

Official closing (am): Cash 827-8 (828.5-9), three months 812-3 (815-5.5), settlement 829 (828). Final kerb close: 815.5-6.5. Turnover: 29,000 tonnes.

COPPER

Grade A	Unofficial close	+ or −	High/Low
Cash	943-4	+5.25	939/938
3 months	966-6.5	+5	968.5/958.5

Official closing (am): Cash 938.9 (938-9), three months 961.5-2 (960-60.5), settlement 939 (939). Final kerb close: 965-6.5.

Standard			
Cash	921-3	+6	917/916.5
3 months	946-8	+5	941/939.5

Official closing (am): Cash 916-6.5 (918-9), three months 939.5-40 (940-1), settlement 916.5 (919). US producer prices 64-68 cents per lb. Total turnover: 22,350 tonnes.

LEAD

	Unofficial close (p.m.) £ per tonne	+ or −	High/Low
Cash	277.5-8	—	278.5/278
3 months	282-2.5	—	283.5/282

Official closing (am): Cash 278-8.5 (277-7.5), three months 282-2.5 (282-2.5), settlement 278.5 (277.5). Final kerb close: 283.5-4. Turnover: 7,800 tonnes. US spot 23-24 cents per lb.

NICKEL

	Unofficial close (p.m.) £ per tonne	+ or −	High/Low
Cash	2600-5	−7	2600
3 months	2600-5	+4	2655/2640

Official closing (am): Cash 2590-5 (2590-5), three months 2642-3 (2636-7), settlement 2595 (2595). Final kerb close: 2650-55. Turnover: 1,002 tonnes.

TIN

KUALA LUMPUR TIN MARKET: Close 14.03 (14.08) ringgit per kg. Down 0.05 ringgit per kg.

ZINC

High grade	Unofficial close (p.m.) £ per tonne	+ or −	High/Low
Cash	614.5-5.0	+1.5	—
3 months	616.5-6.5	−0.25	619/610

Official closing (am): Cash 612-3 (606-7), three months 613-4 (610.5-1), settlement 613 (607). Final kerb close: 616-7. Turnover: 11,350 tonnes. US prime western: 44-47.50 cents per lb.

GOLD

Gold fell $8¼ to $428-429 on the London bullion market yesterday. The metal opened at $428-429½ and was fixed at $429.45 in the morning and $427 in the afternoon. It touched a peak of $429¾-430½ and a low of $423¾-424½, showing a firmish undertone towards the close as dealers noted nervousness about the dollar and a fall in equity prices in London and New York.

GOLD BULLION (fine ounce)	Sept. 29	
Close	$428-429	(£295¼-299¼)
Opening	$428-429¼	(£295¼-297¼)
M'n'g fix	$429.45	(£298.064)
Aft'n'n fix	$427.00	(£297.147)

GOLD AND PLATINUM COINS		
Kr'g'r'nd	$425-428	(£295¼-298¼)
½ Krug	$226¼-226¾	(£157¼-156¼)
¼ Krug	$114¾-115¾	(£80-80¾)
1/10 Krug	$46½-47¼	(£32¼-33)
Mapleleaf	$440¼-443¼	(£307-309¼)
Angel	$435-439	(£303¼-306¼)
1/10 Angel	$46-51	(£32-35¼)
New Sov.	$102-104	(£71¼-72¼)
Old Sov.	$103¼-105	(£72¼-73¼)
$20 Eagle	$470-520	(£327¾-362¾)
Noble Plat	$584-592¼	(£407¼-413¼)

SILVER

Silver was fixed 8.85p an ounce lower for spot delivery in the London bullion market yesterday at 392p. US cent equivalents of the fixing levels were: spot 563.9c, down 12.1c; three-month 572c, down 11.7c; six-month 580.1c, down 12.05c; and 12-month 596.3c, down 11.85c. The metal opened at 391-392½p (584-587c) and closed at 391½-393p (561-563c).

SILVER per troy oz	Bullion Fixing Price	+ or −	L.M.E. p.m. Unoffic'l	+ or −
Spot	392.00p	−8.85	391p	−3.5
3 months	402.35p	−8.10	401p	−3.5
6 months	416.00p	−8.25	—	—
12 months	434.25p	−7.75	—	—

LME—Turnover: 35 (0) lots of 10,000 ounces.

Cash high/low 392p; three months high 403p, low 400p, final kerb 400-2p.

MEAT

Month	LIVE CATTLE Y/day's close	+ or −	LIVE PIGS Y/day's close	+ or −
Oct	96.50	+0.20	103.50	—
Nov	92.30	+0.30	104.50	+0.20
Feb	—	—	98.00	—
Apr	99.50	—	98.00	+0.50

Cattle sales: Nil (4) lots of 5,000 kg. Pigs sales: Nil (5) lots of 3,250 kg.

MEAT COMMISSION—Average fatstock prices at representative markets. GB—Cattle 91.54p per kg lw (−0.62). GB—Sheep 119.69p per kg est dcw (−9.02). GB—Pigs 79.40p per kg lw (−0.49).

COCOA

Futures traded in quiet conditions throughout the day. Origins and manufacturers remained sidelined, reports Gill and Duffus.

COCOA	Yesterday's close £ per tonne	+ or −	Business Done
Sept.	1485-1489	+9.5	1487-1472
Dec	1522-1523	+8.0	1521-1505
March	1554-1560	+9.0	1572-1548
May	1589-1590	+11.5	1582-1568
July	1606-1610	+12.0	1618-1588
Sept.	1625-1627	+12.0	1629-1612
Dec.	1641-1647	+9.5	1650-1629

Sales: 2,125 (3,523) lots of 10 tonnes.

ICCO indicator prices (US cents per pound). Daily price for September 29: 95.99 (95.48); five-day average for September 30: 95.63 (96.09).

COFFEE

Against a weak New York close on Friday London opened £30 lower, attracting commission house selling. Trade buying was evident on a scale-down basis but could not prevent losses of up to £58 being posted by mid-afternoon. New York found large buy orders around key chart points and encouraged by the underlying support, London rallied with further trade buying, reports Drexel Burnham Lambert.

COFFEE	Yesterday's close	+ or −	Business Done
Sept.	2410-2420	−47.5	2438-2401
Nov	2435-2437	−38.0	2445-2415
Jan	2375-2380	−45.0	2390-2370
Mar.	2310-2315	−46.5	2325-2295
May	2305-2310	−35.0	2310-2290
July	2300-2310	−35.0	2310-2185
Sept.	2300-2325	−10.0	—

Sales: 5,685 (6,707) lots of 5 tonnes.

ICO indicator prices (US cents per pound) for September 26: Comp daily 1979 181.59 (184.77): 15-day average 182.41 (182.34).

SOYABEAN MEAL

	Y'sterd'ys close £ per tonne	+ or −	Business done
October	135.5-136.5	+0.75	135.4
Dec.	134.8-134.8	+1.40	135.0-134.5
Feb.	135.5-135.5	+1.55	—
April	136.5-137.0	+1.95	—
June	135.0-135.5	+1.15	—
August	133.5-134.8	+0.95	—
October	134.0-135.0	+0.55	—

Sales: 211 (200) lots of 20 tonnes.

GRAINS

After steadying influence from stronger country markets wheat failed to maintain the early gains and eased sharply. After a firm start barley also lost ground to close with shipper profit-takers on the sell side, reports T. G. Roddick.

Mnth	WHEAT Yesterday's close	+ or −	BARLEY Yest'rdy's Close	+ or −
Nov.	108.75	−0.50	109.35	+0.10
Jan	110.70	−0.50	111.40	−0.20
Mar.	112.70	−0.55	110.50	−0.15
May	114.70	−0.80	114.50	−0.15
July	111.20	−0.40	—	—

Business done—Wheat: Nov 109.70-8.75, Jan 111.45-10.70, Mar untraded, May 115.60-4.70, July untraded. Sales: 107 lots of 100 tonnes. Barley: Nov 109.70-8.35, Jan 112.00-1.70, Mar 114.00-3.80, May 116.10-4.60. Sales: 148 lots of 100 tonnes.

LONDON GRAINS—Wheat: US Dark Northern Spring No. 1, 10 per cent: Oct 97.25, Nov 99.00. US No. 2 Soft Red Winter: Oct 101.00, Nov 106.50. French 11½-12 per cent: Oct 131.00. English feed, fob: Oct 113.00, Oct/Dec 113.75, Jan/March 116.25 sellers East Coast. Maize: US No. 3 Yellow/French, transhipment East Coast: Oct 145.50. Barley: English feed, fob: Oct 114.00-115.00 buyers/sellers, Dec 116.25 sellers, Jan/March 116.50 sellers.

HGCA — Locational ex-farm spot prices. Feed Barley: Eastern 108.00, E. Midlands 108.40, N. East 109.50, Scotland 104.90. The UK monetary co-efficient for the week beginning Monday October 6 (based on HGCA calculations using four days' exchange rates) is expected to remain unchanged.

POTATOES

Fine weather and comment from the PMB over the weekend put opening levels well down. Stop-loss selling added to the fall and by midday April was £11.00 down. Fresh planting figures from the PMB showed a further decline in area since the last estimate, and thin news kept afternoon trade generally steady, albeit nervous, reports Coley and Harper.

Month	Yesterdays close £ per tonne	Previous close	Business done
Nov	108.60	110.00	108.80-108.00
Feb	120.00	121.50	120.00
Apr	168.70	176.50	175.80-165.50
May	184.50	195.00	197.50-184.80
Nov	90.00	92.50	—

Sales: 1,381 (943) lots of 40 tonnes.

RUBBER

PHYSICALS — The London market opened slightly easier, attracted some covering interest and closed uncertain, reports Lewis and Peat. Closing prices (buyers): Spot 65.00p (65.75p); Nov 63.25p (64.25p); Dec 63.25p (64.25p). The Kuala Lumpur fob price (Malaysian cents a kilo): RSS No. 1 228.0 (231.0) and SMR 205.0 (206.0).

FUTURES—Index 657, Nov 646-653, Dec 648-656, Jan/March 656-663, April/June 667-672, July/Sept 669-677. Sales: Nil.

OIL

Crude prices firmed slightly in thin trading. First-half October Forties sold at $13.60. November Brent traded around $14.30. November WTI opened 11c up on Nymex and traded 26c up at 1.30pm EDT. The petroleum products market was very quiet in the run-up to the Opec meeting next week. Traders were reluctant to run the risk of making positions—Petroleum Argus, London.

CRUDE OIL—FOB ($ per barrel)—Oct.	Latest	Change + or −
Arab Light	—	—
Arab Heavy	—	—
Dubai	10.45-10.55	+0.35
Brent Blend	10.70-10.80	+0.20
W.T.I. (1pm est)	14.76-14.80	+0.20
Forcados (Nigeria)	—	—
Urals (cif NWE)	—	—

PRODUCTS—North West Europe Prompt delivery cif ($ per tonne)		
Premium gasoline	159-162	−1
Gas Oil	115-117	—
Heavy fuel oil	72-74	—
Naphtha	115-117	+1

* November Petroleum Argus estimates.

GAS OIL FUTURES

Month	Yest'rdy's close US $ per tonne	+ or −	Business Done
Oct	118.50	+1.75	[illegible]
Nov	126.25	+1.25	[illegible]
Dec	130.25	+1.50	[illegible]
Jan	133.00	+0.50	[illegible]
Feb	134.00	—	—
Mar.	126.00	—	—
Apr	122.00	—	—

Turnover: 1,382 (2,006) lots of 100 tonnes.

SUGAR

LONDON DAILY PRICE — Raw sugar $124.00 ($86.00), down $1.00 (down $1.00) a tonne for Oct-Nov delivery. White sugar $178.00, down $1.00.

No. 6 Contract	Yest'rdy's close £ per tonne	Previous close	Business done
Oct	158.4-158.8	113.0-114.8	159.0-152.8
Dec	121.0-122.8	128.0-128.3	124.0-121.2
Mar	154.4-154.8	141.0-141.4	158.2-154.2
May	150.5-150.8	149.0-147.8	149.8-138.8
Aug	145.0-148.8	152.8-155.0	—
Oct	149.2-149.8	155.6-157.8	158.6
Dec	155.8-158.8	160.8-164.0	—

Sales: 3,455 (1,634) lots of 50 tonnes.

Tate and Lyle delivery price for granulated basis sugar was £188.50 (same) a tonne for export.

International Sugar Agreement—(US cents per pound fob and stowed Caribbean ports). Prices for Sept 26: Daily price 4.84 (4.88); 15-day average 4.70 (4.67).

PARIS—(FFr per tonne): Dec 1135-1145, Mar 1158-1160, May 1195-1197, Aug 1223/1228, Oct 1253-1259, Dec 1285-1298.

FREIGHT FUTURES

At 800 the BFI was higher than expected. There was talk that a firm $12.50 Gulf/Japan rate had been fixed, reports Clarkson Wolff.

	Close	High/Low	Prev.
Dry Cargo			
Oct.	826/827	830/825	825/826
Jan.	825/826	828/826	825/826
April	862/865	866.5/860	870/874
July	770/774	712/765	718/780
Oct.	865/865	865/863.0	860/880
Jan.	890/910	910	890/930
Apr.	950/960	976/965	975/995
July	860/880	870	861/880
BFI.	800	—	798.5

Turnover: 260 (154).

	Close	High/Low	Prev.
Tankers			
Sept.	900/950	920	920/920
Oct.	1040/1090	—	1070/1100
Nov.	1110/1200	—	1150/1180
Dec.	1140/1210	—	1160/1180
Mar.	1040/1120	—	1080/1090
June	1070/1150	—	1110/1135
BTI	949.5	—	958

Turnover: 6 (0).

COTTON

LIVERPOOL — Spot and shipment sales for the week commencing September 22 amounted to 1,407 tonnes against 1,505 tonnes in the previous week. Improved demand brought business in Pakistani, Turkish, Chinese, Colombian and West African varieties.

TEA

31,585 packages were on offer at the London tea auction, including 2,600 packages in the offshore section, reports the Tea Brokers' Association. A fair demand prevailed. Assams were well supported and prices showed little overall change. Selected best East Africans held values, but the remainder including most mediums, were 2-4p per kg lower. Central Africans remained a strong feature, with colory sorts often 4-5p higher. Ceylons met good demand at firm to dearer rates, apart from plainest brokens, which were neglected. Offshore teas came in for improved competition, and prices were often 5-10p dearer. Quotations: quality 195p nominal (195p nom); medium 163p (165p); lower medium 126p (124p).

US MARKETS

THE PRECIOUS METALS closed lower but off the sessions lows, reports Heinold. Trading was quiet with light volume. The markets opened higher following gains in London on the weaker US dollar against foreign currencies, but the lack of follow-through buying caused prices to fall to light support levels. December gold traded through the $426 session low set on Friday, to $422. However, when commission house selling dried up prices recovered. Sugar futures eased in moderate volume with activity in the October/March switch dominating the session. Lack of support allowed the market to resume its downward slide with liquidation in October contributing to the weakness. A major producer, believed to be the chief long holder in the October position, was also understood to be liquidating its October position. Soyabean futures continued higher boosted by aggressive commission house buying amid forecasts of more wet weather in the Mid-West this week. The possibility that harvesting would be slowed by heavy rain in most of the belt through Wednesday and again late on Thursday into the weekend was the major bullish force behind the market.

NEW YORK

ALUMINIUM 40,000 lbs, cents/lb

	Close	High	Low	Prev
Oct	51.95	—	—	51.95
Nov	52.05	—	—	52.05
Dec	52.40	52.60	52.40	52.30
Jan	52.46	—	—	52.36
March	52.70	52.75	52.75	52.60
May	52.95	—	—	52.85
July	53.20	—	—	53.10
Sept	53.40	—	—	53.30
Dec	53.50	—	—	53.40
Jan	53.70	—	—	53.60

COCOA 10 tonnes, $/tonne

	Close	High	Low	Prev
Dec	2023	2025	[illegible]	2000
March	2028	2060	2020	2023
May	2047	2080	2040	2051
July	2070	—	—	2070
Sept	2085	2085	2075	2086
Dec	2100	2123	2098	2101

COFFEE "C" 37,500 lbs, cents/lb

	Close	High	Low	Prev
Dec	206.50	208.25	205.50	206.18
March	197.72	—	197.80	199.00
May	196.78	195.10	196.00	198.42
July	196.70	198.25	196.50	199.10
Sept	196.76	198.76	196.76	—
Dec	197.90	199.00	197.98	200.70

COPPER 25,000 lbs, cents/lb

	Close	High	Low	Prev
Oct	60.50	—	—	60.85
Nov	60.85	—	—	60.95
Dec	61.15	61.75	60.90	61.25
Jan	61.25	—	—	61.35
March	61.45	62.00	61.30	61.55
May	61.75	62.30	61.75	61.85
July	61.95	62.20	62.20	62.10
Sept	62.25	62.75	62.20	62.40
Dec	62.75	—	—	62.85
Jan	62.85	—	—	62.96

COTTON 50,000 lbs, cents/lb

	Close	High	Low	Prev
Oct	44.34	44.25	41.35	41.60
Dec	44.05	44.05	41.80	42.05
March	44.77	44.77	42.05	42.77
May	45.50	45.50	42.90	43.50
July	45.80	45.70	43.25	43.80
Oct	47.20	46.30	46.30	45.20
Dec	47.85	47.85	45.85	45.85
March	48.15	—	—	46.35

CRUDE OIL (LIGHT) 42,000 US gallons, $/barrels

	Latest	High	Low	Prev
Nov	14.81	14.95	14.60	14.43
Dec	14.98	15.05	14.78	14.61
Jan	14.90	14.96	14.74	14.53
Feb	14.83	14.85	14.64	14.45
March	14.76	14.86	14.60	14.39
April	14.67	14.72	14.60	14.34
May	14.73	14.75	14.65	14.30
June	14.80	14.71	14.60	14.28
July	14.65	14.65	14.55	14.26

GOLD 100 troy oz, $/troy oz

	Close	High	Low	Prev
Oct	422.9	430.0	418.5	427.3
Nov	425.3	—	—	429.7
Dec	427.1	433.5	422.0	431.5
Feb	420.8	437.0	423.0	435.2
April	434.2	440.0	429.0	438.5
June	437.9	443.5	434.0	442.3
Oct	445.8	451.5	448.0	450.2
Dec	449.9	458.0	443.5	454.3
Feb	454.5	460.5	454.0	458.9
April	459.2	464.0	457.0	463.6
June	464.0	462.0	462.0	468.4

SPOT PRICES—Chicago loose lard 16.00 (same) cents per pound. Handy and Harman silver bullion 599.5 (566.5) cents per troy ounce.

HEATING OIL 42,000 US gallons, cents/US gallons

	Latest	High	Low	Prev
Oct	41.05	41.05	40.40	40.17
Nov	42.35	42.35	41.41	41.57
Dec	43.75	43.90	41.20	42.85
Jan	44.30	44.40	43.90	43.77
Feb	44.70	44.80	44.30	44.05
March	42.20	42.20	41.80	41.86
April	40.70	40.70	40.70	40.00
May	39.50	39.50	38.90	38.80
June	38.50	—	—	38.35
July	38.50	38.50	38.50	38.40

ORANGE JUICE 15,000 lbs, cents/lb

	Close	High	Low	Prev
Nov	107.20	108.20	106.80	107.05
Jan	107.95	109.40	107.65	107.70
March	108.45	109.20	108.10	107.85
May	109.10	109.50	108.60	108.55
July	108.75	110.00	108.90	108.70
Sept	110.50	110.50	109.20	109.15
Nov	111.00	111.00	111.00	109.45
Jan	111.50	—	—	109.25

PLATINUM 50 troy oz, $/troy oz

	Close	High	Low	Prev
Oct	561.8	579.3	531.0	577.3
Jan	567.8	586.0	557.5	582.5
April	561.5	589.5	550.5	586.5
July	565.5	590.5	570.0	590.5
Oct	570.0	592.0	580.0	595.0
Jan	574.0	599.0	599.0	599.0

SILVER 5,000 troy oz, cents/troy oz

	Close	High	Low	Prev
Oct	549.2	560.0	556.0	588.9
Nov	562.6	—	—	553.0
Dec	565.8	570.5	551.0	564.0
Jan	558.4	—	—	[illegible]
March	563.9	578.0	562.0	572.0
May	589.5	584.0	566.0	578.4
July	575.9	589.0	574.0	584.4
Sept	582.4	597.0	585.0	590.8
Dec	592.3	607.0	590.0	600.4
Jan	595.9	—	—	603.9

SUGAR WORLD "11" 112,000 lbs, cents/lb

	Close	High	Low	Prev
Oct	4.64	4.92	4.50	4.93
Jan	5.43	5.50	5.38	5.50
March	5.97	6.18	5.90	6.13
May	6.22	6.40	6.20	6.45
July	6.43	6.63	6.36	6.62
Oct	6.66	6.85	6.58	6.85

CHICAGO

LIVE CATTLE 40,000 lbs, cents/lb

	Close	High	Low	Prev
Oct	60.87	61.07	60.55	60.20
Dec	57.40	57.70	57.30	57.07
Feb	56.66	56.97	56.60	56.52
April	57.75	57.95	57.70	57.62
June	57.72	57.85	57.50	57.60
Aug	55.90	56.35	55.80	55.70
Oct	54.90	55.25	54.90	55.00

LIVE HOGS 30,000 lb, cents/lb

	Close	High	Low	Prev
Oct	51.85	52.30	51.75	51.85
Dec	51.95	52.35	51.82	51.82
Feb	51.37	51.45	50.80	50.92
April	46.30	46.70	46.25	46.27
June	48.87	49.30	48.70	48.80
July	48.70	49.40	48.37	48.50
August	47.20	47.97	47.00	47.35
Oct	44.10	44.20	44.00	43.90
Dec	44.00	44.00	44.00	43.90

MAIZE 5,000 bu min, cents/56 lb-bushel

	Close	High	Low	Prev
Dec	179.0	179.4	174.0	172.2
March	188.0	188.0	183.0	182.0
May	192.0	192.0	188.2	187.0
July	192.0	192.4	189.4	188.2
Sept	188.4	189.0	187.0	186.0
Dec	192.6	193.0	190.0	189.4
March	199.4	199.4	198.0	197.4

PORK BELLIES 38,000 lb, cents/lb

	Close	High	Low	Prev
Feb	68.80	67.50	68.25	68.47
March	57.90	68.80	67.30	57.82
May	57.66	68.45	67.35	57.60
July	66.75	69.16	66.60	67.55
August	64.85	65.55	64.60	66.35

SOYABEANS 5,000 bu min, cents/60 lb-bushel

	Close	High	Low	Prev
Nov	490.0	490.4	486.0	481.6
Jan	497.4	498.0	493.4	489.9
March	505.4	506.2	501.4	498.2
May	512.0	512.0	508.0	506.2
July	514.0	514.4	510.5	508.2
August	513.2	514.0	510.0	507.6
Sept	508.0	—	—	503.0
Nov	510.4	510.4	508.0	505.4

SOYABEAN MEAL 100 tons, $/ton

	Close	High	Low	Prev
Oct	151.8	151.8	150.7	149.6
Dec	152.8	152.8	151.9	150.8
Jan	153.0	153.7	152.6	151.6
March	154.0	154.7	153.8	153.2
May	155.7	156.0	154.9	154.5
August	156.7	157.0	156.0	155.2
July	155.5	156.3	156.0	155.2
Sept	156.0	156.3	156.0	154.1

SOYABEAN OIL 60,000 lbs, cents/lb

	Close	High	Low	Prev
Oct	14.14	14.32	14.10	14.04
Dec	14.74	14.89	14.70	14.64
Jan	14.87	15.00	14.85	14.75
March	15.20	15.27	15.05	15.04
May	15.35	15.40	15.30	15.25
July	15.49	15.60	15.48	15.40
August	15.50	15.55	15.50	15.46
Sept	15.52	—	—	15.50
Oct	15.62	—	—	15.59

WHEAT 5,000 bu min, cents/60lb-bushel

	Close	High	Low	Prev
Dec	257.6	258.0	254.4	254.0
March	251.6	252.2	259.4	259.0
May	246.6	248.0	245.0	244.4
July	238.4	240.2	237.4	236.4
Sept	240.4	—	—	239.4

CURRENCIES, MONEY & CAPITAL MARKETS

FOREIGN EXCHANGES

Pound continues to fall

STERLING FELL to record lows on the foreign exchanges yesterday, and the dollar also weakened as dealers responded to the lack of accord among finance ministers and central bank governors attending meetings of the Group of Five and International Monetary Fund in Washington.

The failure of ministers to agree on e co-ordinated policy of interest rate cuts and a stabilisation of currency values undermined the pound and the dollar, and encouraged speculation that the D-mark and yen would continue to eppreciate.

Pressure built up on sterling as dealers took note of a forecast by the IMF that Britain's balance of payments deficit would be sizeable within five years.

This followed last week's disappointing trade figures, showing e record deficit, about double market forecasts.

Rumours also continued of a sharp rise in UK money supply figures, at next Tuesday's announcement, which tended to increase the upward pressure on London money market rates, but did not prevent another fall in the value of the pound.

In spite of intervention by the Bank of England sterling's exchange rate index fell to a record low of 68.2 from 68.7, after opening slightly higher at 68.8. The closing level was the lowest of the day.

The pound also fell to a record low of DM 2.9025 from DM 2.94; to FFr 9.5050 from FFr 9.6325; to SFr 2.3525 from SFr 2.3875; and to Y220.25 from Y221.75.

In terms of the dollar sterling lost 85 points to $1.4330-1.4340.

The dollar was depressed by the lack of agreement in Washington at the weekend, reinforcing speculation that US officials are looking for a further decline to correct the US trade deficit. But this was countered by suggestions the Bundesbank would intervene if the dollar fell towards DM 2.00. Reports of support for the dollar by the German authorities at around DM 2.0250 provided support for the US currency, which finished at DM 2.0250 compared with DM 2.0455. The dollar also fell to SFr 1.6415 from SFr 1.6616; to FFr 6.63 from FFr 6.7025 and to Y153.60 from Y154.35. On Bank of England figures the dollar's index declined to 110.1 from 110.7.

D-MARK — Trading range against the dollar in 1986 is 2.4710 to 1.9990. August average 2.0624. Exchange rate index 149.9 against 139.5 six months ago.

The D-Mark gained ground against the dollar in Frankfurt yesterday. The Bundesbank did not intervene when tha dollar fell to DM 2.0272 from DM 2.0413 at the Frankfurt fixing. Trading was volatile, following reports the West German central bank had intervened in the Far East to buy dollars at around DM 2.0250. It was also suggested the Bundesbank bought small amounts of dollars in Frankfurt at about the same level, as the US currency came under pressure from the failure of finance ministers to reach agreements at weekend meetings in Washington. At the Frankfurt close the dollar had fallen to DM 2.0280 from DM 2.0455 on Friday.

JAPANESE YEN — Trading range against the dollar in 1986 is 202.70 to 152.25. August average 154.15. Exchange rate index 217.7 against 193.9 six months ago.

The yen rose against the dollar in Tokyo, but trading was thin, with dealers having squared positions ahead of the quarter end. The dollar fell to Y153.65 from Y154.45, but reaction was generally muted to the lack of agreement by finance ministers meeting in Washington. Japanese dealers suggested that no agreement was expected on stabilisation of currencies of interest rate policy. They added that as long as e large US trade deficit continues, upward pressure on tha yen will persist, but a steep advance by the Japanese currency in the short term was considered unlikely.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu September 29	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	43.1139	43.2907	+0.41	+0.90	±1.5368
Danish Krone	7.81701	7.88064	+0.81	+1.30	±1.6403
German D-Mark	2.11083	2.08756	−1.10	−0.61	±1.1127
French Franc	6.87316	6.83676	−0.53	−0.04	±1.3659
Dutch Guilder	2.37833	2.35930	−0.80	−0.31	±1.5059
Irish Punt	0.764976	0.761912	−0.40	+0.09	±1.6683
Italian Lira	1476.95	1443.71	−2.25	−2.03	±4.0734

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

£ IN NEW YORK

[illegible]

STERLING INDEX

[illegible]

CURRENCY RATES

[illegible]

CURRENCY MOVEMENTS

[illegible]

OTHER CURRENCIES

[illegible]

POUND SPOT—FORWARD AGAINST THE POUND

[illegible]

DOLLAR SPOT—FORWARD AGAINST THE DOLLAR

[illegible]

EURO-CURRENCY INTEREST RATES

[illegible]

EXCHANGE CROSS RATES

[illegible]

FINANCIAL FUTURES

Higher rates depress gilts

GILT PRICES fell in the London International Financial Futures Exchange yesterday as cash rates rose sharply. Fears of higher bank base rates and sterling's decline to a record low removed over three full points from the December contract. It opened at 110-00 down from 111-19 and eased to 109-20 initially before recovering to a high of 110-10 on short covering, shortly after the Bank of England had given assistance in the morning at previously established rates.

However, market sentiment was guided principally by the failure of the group of five finance ministers to come to any broad agreement on interest rate and currency strategy and, because of this, gilt futures were sold heavily down to a low of 108-10. Some buyers returned after comments made by the Governor of the Bank of England that base rates would not rise at that point and values moved up to 108-18 before slipping away once more to 108-16. The December contract closed at 108-18.

Short sterling acted in much the same way, opening at 88.80 for December delivery and sold in the first hour before pausing as details of the Bank of England's money market operations became known. Thereafter the downward trend continued to a low of 88.46 where it bounced back to 88.60 before closing at 88.55 down from 89.03 on Friday.

US Treasury bonds for December delivery opened at 94-10 and were sold on the lack of G5 agreement to a low of 93-21. This was two full points down from the equivalent Chicago close although a trader pointed out that the limit of movement in Chicago was now three full points. However, selling dried up at 93-21 with buyers taking it back to 93-30. Chicago came in as buyers up to 94-24 before it fell back and then finished on short covering at 94-14.

LIFFE LONG GILT FUTURES OPTIONS

[illegible]

LIFFE US TREASURY BOND FUTURES OPTIONS

[illegible]

LIFFE £/$ OPTIONS

[illegible]

LONDON SE £/$ OPTIONS

[illegible]

PHILADELPHIA SE £/$ OPTIONS

[illegible]

LIFFE—EURODOLLAR OPTIONS

[illegible]

LONDON

[illegible]

CHICAGO

[illegible]

CURRENCY FUTURES

[illegible]

£ WORLD VALUE OF THE POUND

The table below gives the latest available rate of exchange for the pound against various currencies on September 29, 1986. In some cases rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

Abbreviations: (A) approximate rate, no direct quotation available; (F) free rate; (P) based on U.S. dollar parities and going sterling-dollar rates; (T) tourist rate; (Bas) basic rate; (bg) buying rate; (Bk) bankers' rates; (cm) commercial rate; (cv) convertible rate; (fn) financial rate; (exC) exchange certificate rate; (nc) non commercial rate; (nom) nominal; (o) official rate; (sg) selling rate; (c) controlled rate.

COUNTRY	CURRENCY	VALUE OF £ STERLING
[illegible]	[illegible]	[illegible]

MONEY MARKETS

UK rates up sharply as pound falls again

INTEREST RATES rose sharply in London yesterday as pressure built up for a rise in clearing bank base rates. Disappointment that the meeting of finance ministers had failed to produce a package on co-ordinated action for currencies and interest rates tended to depress sterling so that by its close in London it had fallen to a record low, despite support from the Bank of England.

Despite a wnrseuing background, the authorities failed to give any encouragement to banks to increase their rates although most dealers were fairly sure that a rise to 12 per cent in base rates was inevitable. Three-month interbank money started at 10$\frac{13}{16}$-10$\frac{15}{16}$ per cent from 10$\frac{7}{16}$-10$\frac{9}{16}$ per cent and finished at 11$\frac{5}{16}$-11$\frac{7}{16}$ per cent, a full one-point rise in just one week. The one-year rate ended at 11$\frac{5}{16}$-11$\frac{7}{16}$ per cent up from 11-11¼ per cent. Overnight money was in good supply with interbank money opening at 8½-9 per cent and easing gently to finish at 1 per cent.

UK clearing bank base lending rate 10 per cent since May 22

Comments by Mr Robin Leigh-Pemberton, Governor of the Bank of England, suggesting that base rates would not rise that day failed to inspire any confidence and dealers remained convinced that sterling's fall was likely to continua until some action was taken to increase interest rates.

The Bank forecast a shortage of around £750m with factors affecting the market incinding maturing assistance and a take up of Treasury bills together draining £753m and Exchequer transactions a further £400m. These were partly offset by a fall in the nnte circulation of £340m and banks' balances brought forward £85m above target. The authorities offered an early round nf assistence which totalled £709m and comprised purchases of £337m of eligible bank bills in band 2 at 9$\frac{13}{16}$ per cent and in band 3 £20m of Treasury bills at 9$\frac{13}{16}$ per cent, £37m of local authority bills at 9¾ per cent and £232m of eligible bank bills at 9$\frac{13}{16}$-9¾ per cent.

The forecast was revised to a shortage of around £700m before taking into account the early help and the Bank gave no further help in the morning or afternoon.

While the authorities continued to deal at previously established rates, dealers noted a small concession of $\frac{1}{16}$th in some band 3 bills bought as houses sought to offload as much paper as possible.

MONEY RATES

[illegible]

FT LONDON INTERBANK FIXING

[illegible]

LONDON MONEY RATES

[illegible]

LONDON SHARE SERVICE

BRITISH FUNDS

1986 High	1986 Low	Stock	Price £	+ or –	Yield Int.	Yield Red.
		"Shorts" (Lives up to Five Years)				
102¼	100⅛	Exch 14pc 1986	100⅛xd	—	13.95	10.44
99⅞	94⅞	Exch. 2½pc 1986	98⅞	–⅛	2.58	10.36
102⅞	100⅛	Exch. 13¼pc 1987	100⅞	–⅛	13.21	11.75
100⅞	97⅞	Treas 10¼pcCv '87	99⅞	–⅛	10.31	11.75
97¼	92⅞	Exch 2½pc 1987	97⅞	–⅛	2.57	0.72
101⅞	97½	Exch. 10½pc 1987	99⅞xd	–⅛	10.57	11.83
98⅞	93⅞	Funding 6½pc 85-87	97⅞xd	–⅛	6.65	10.70
101⅞	96⅞	Treas. 10pc 1987	99	–⅛	10.10	11.41
97⅞	90⅞	Treas 3pc 1987	95⅞	–⅛	3.15	9.18
104⅞	99⅞	Treas. 12pc 1987	100⅞xd	–½	11.84	10.76
99⅞	92⅞	Treas 7¾pc 1985-88‡‡	96¼	–½	8.05	10.79
104	96½	Exch 10½pc '88	98¼	–⅛	[illegible]	11.69
102⅞	95⅞	Treas 9½pc Cv '88	97⅞	–⅛	[illegible]	11.57
94¼	86⅞	Transport 3pc '78-88	90⅞	–½	[illegible]	9.22
102⅞	93⅞	Treas. 9½pc '88	96⅞xd	–⅞	[illegible]	11.58
107⅞	98⅞	Treas 11½pc 1989	99⅞	–⅞	[illegible]	11.63
103⅞	93⅞	Treas 9½pc Cnv 1989	95⅞xd	–⅞	[illegible]	11.67
92⅞	82⅞	Treas 3pc 1989	86¼	–½	[illegible]	8.76
105⅞	95⅞	Treas 10½pc 1989	97⅞	–⅞	[illegible]	11.63
104⅞	94⅞	Exch 10pc 1989	96⅞	–⅞	[illegible]	11.60
107⅞	97	Exch 11pc 1989	98⅞xd	–⅞	[illegible]	11.56
93⅞	84½	Treas 5pc 1986-89	87⅞xd	–⅞	[illegible]	9.76
110⅞	94⅞	Exch 10¼pcCv '89	99½	–⅛	[illegible]	10.41
114⅞	103⅞	Treas 13pc 1990‡‡	103⅞	–1⅛	[illegible]	11.60
108⅞	97⅞	Exch 11pc 1990‡‡	98⅞	–⅞	[illegible]	11.56
113⅞	101⅞	Exch. 12½pc 1990	102⅞	–1⅛	[illegible]	11.55
89⅞	79⅞	Treas. 3pc 1990	82¼	–⅞	[illegible]	8.84
100⅞	89⅞	Treas 8¼pc 1987-90‡‡	93	–¾	[illegible]	10.61
106⅞	93	Treas. 10pcCv 1990	94⅞xd	–1¼	[illegible]	11.65
86⅞	76½	Exch 2½pc 1990	79⅞	–⅞	[illegible]	8.53
112⅞	99⅞	Treas 11¾pc 1991	100⅞	–1⅛	[illegible]	11.49
94¼	83⅞	Funding 5¾pc '87-91‡‡	87⅞	–⅞	[illegible]	9.54
86⅞	79½	Treas. 3pc 1991●	79½	–½	[illegible]	8.45
		Five to Fifteen Years				
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Over Fifteen Years

[illegible]

Undated

[illegible]

Index-Linked

[illegible]

INT. BANK AND O'SEAS GOVT STERLING ISSUES

[illegible]

CORPORATION LOANS

[illegible]

COMMONWEALTH & AFRICAN LOANS

[illegible]

LOANS

Building Societies

[illegible]

Public Board and Ind.

[illegible]

Financial

[illegible]

FOREIGN BONDS & RAILS

[illegible]

AMERICANS

[illegible]

AMERICANS—Cont.

1986 High	1986 Low	Stock	Price	+ or –	Div Gross	C'vr	Y'ld Gr's
[illegible]	28¼	Chemical New York	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	26⅞	Chesebrough-Pond's $1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	19⅞	Chrysler $6¼	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	53½	Citicorp $4	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	774p	CityFed Fin. Corp.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	21⅞	Colgate-P. $1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	42⅞	Colt Inds. $1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	16⅞	Cons Frightwys $0.62	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
81⅞p	[illegible]	Cont Illinois Corp $1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	13½p	Cont Illinois Hldgs $1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	39p	♥Corporate Data Sercs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	480p	Cullinet Sftwr $0.1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
287p	34p	Damson Oil 40c	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
23⅞	17⅞	Dana Corp. $1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
33⅞	20⅞	Data General	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
24⅞p	8½p	♥Derma-Lock Medical	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
79	55⅞	Dun & Bradstreet $1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
52⅞	42⅞	Exxon Corpn. 50c	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
25⅞	18⅞	FPL Group $0.01	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
13⅞	625p	Fairmont Fin.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
11⅞	497p	Fin. Corpn. Amer. 50c	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
23⅞	17⅞	First Chicago $5	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
42⅞	27⅞	Ford Motor $2	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
28⅞	20	GATX 62½c	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
54⅞	47⅞	Gen. Elect. $1¼	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
16⅞	612p	♥General Host Corp $1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
32⅞	24	Gillette $1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
15⅞	10	Gt Am First Svgs Bk $1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
31⅞	23⅞	Gt. Western Fin. $1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
25⅞	18⅞	Greyhound $1.50	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
20⅞	11⅞	Hasbro Inc $0.50	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
57⅞	42	Honeywell $1.50	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
28	22⅞	Hospital Corp Am $1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
24⅞	19⅞	Houston Inds Incl	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
112⅞	87⅞	IBM Corpn $1.25	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
19⅞	12⅞	IC Industries	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
39⅞	25⅞	ITT Corpn. $1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

CANADIANS

[illegible]

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS—Cont.

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

DRAPERY & STORES—Cont.

[illegible]

ELECTRICALS

[illegible]

ENGINEERING

[illegible]

ENGINEERING—Continued

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS—Continued

[illegible]

مكتبة من الأصل

INDUSTRIALS—Continued

1986 High	Low	Stock	Price	+ or −	Div Net	C'vr	Y'ld Gr's	P/E
79½	45	Mitchell Cotts	52	+3	[illegible]	1.5	11.5	(7.3)
124	81	Monks & Crane 10p	129	.....	[illegible]	2.9	3.2	14.7
317	210	Morgan Crucible	260	+5	[illegible]	1.5	4.7	17.0
23½	15½	Morris (W) F.A. 20p	18½	−1	—	—	—	—
152	65	Myson Grp 10p	130xd	+1½	[illegible]	2.6	2.7	17.8
365	230	MW Computers	265	+35	4.0	3.0	3.2	15.2
66	27	Nash Inds	58	+2	[illegible]	—	1.2	—
*27½	15½	Neil & Spencer 10p	17½	−½	[illegible]	—	—	—
39	28	Newman Inds 10p	32	.....	[illegible]	1.5	3.5	24.9
134	65	Noble & Lund 10p	112xd	+½	[illegible]	4.3	0.9	36.9
65	39	Nolton	52	+2	[illegible]	7.0	2.6	7.4
150	96	Norank Systems 5p	148	.....	[illegible]	—	1.4	19.0
286	187	Norcros	215	−2	9.3	2.2	6.1	10.3
180	49	Nu-Swift 5p	155	.....	3.5	2.1	3.2	20.8
£365	£228	OCE 9pc Cnv 1987-92	£351½	+11½	Q9%	—	f2.6	—
118	80	Oakwood Grp	85	.....	†5.0	1.3	‡	11.5
258	193	Office & Elect	195	−2	8.5	2.9	6.3	7.7
183	70	Oldacre 20p	176	+1	ϕ5.0	ϕ	4.1	ϕ
34	26	Omnitech 1p	27	+1	—	—	—	—
36	22	Optometrics $0.01	25	.....	—	—	—	—
890	500	Oriflame £1	870xd	+11	†24.9	2.1	4.0	16.9
10	5	Overstone 12½p	9	+4	—	—	—	—
142	85	PCT Grp 10p	138	.....	[illegible]	1.9	11.1	4.7
£20¾	£13¼	PLM 'B' Sk 25	£18	−⅛	Q3.2	—	5.6	—
195	114	PSM Intl	188	.....	Q23.2%	0.3	3.2	—
255	167	Pacer Systems $0.01	178	.....	ϕ5.5	2.1	4.1	14.3
78	53	Pacific Sales 10p	55	.....	[illegible]	3.4	1.6	18.9
445	246	Parker Knoll 'A'	410xd	−1	3.0	ϕ	8.0	ϕ
555	208	Parkfield Group 5p	460	−2	12.0	ϕ	4.1	ϕ
59	17	Pavion Intl	18	.....	1.6	4.2	1.1	29.3
£130	£69½	Do 11pc Cnv Ln '94-02	£69½	−½	—	—	—	4.0
608	395	Pearson	526	−4	Q11%	—	0.2	—
27	12	Peak Holdings 5p	26	.....	†10.0	2.8	2.7	17.1
145	88	Peerless	136	+1	—	—	—	—
519	141½	Pentland 10p	440	−1	6.3	1.5	6.3	(12.2)

LEISURE—Continued

1986 High	Low	Stock	Price	+ or −
395	263	LWT	395	+3
187	137	Lee International 10p	167xd	+1
49	32	Leisure Inv 10p	49	.....
115	58	Leisuretime Int 10p	89	.....
117	100	Lowrier	105	.....
98	87	Marina Dev. 50p	88	+1
220	125	Media Tech Int 20p	135	+8
*170	130	Mediamaster 10p	145	.....
220	130	Miss World 10p	205	.....
90	62	Nationwide Leisure	70	.....
17	10	Music Int 20c	11	+1
35¾	23	Owners Abroad 3p	34¼	.....
90	46	Photax (Lon.)	46	−1
34	28	P'dilly Radio NV 5p	28	.....
*73	25½	Pineapple 10p	68	+3
391	280	Pleasurama 5p	313	−1
178	136	Do. 7pcCvCnvRedPf	147	.....
157	94	Prestwich	96	+2
43	18	Radio City 'A' NV	32	.....
51	33	Radio Clyde N/V	58	.....
393	322	Really Useful Grp 5p	380	+2
64	40	Riley Leisure 10p	48	−2
230	130	Saga Hols. 20p	132	−3
395	155	Samuelson Grp 20p	165	−5
123	73	Sangers Photo 10p	86	+2
178	110	Scanro 50p	113	.....
340	175	Scott. TV 10p	330	.....
294	114	SeaCo Inc $0.125	191	−1
27	7	SelecTV 10p	20	+2
37	20	Spectrum 5p	28	.....
135	119	Stanley Leisure	135	+2
47	31	TSW 5p	46	+½
*279	144	TVS N/Vtg 10p	235	+2
188	91	Television Serv 50p	91xd	−3

Miscellaneous

1986 High	Low	Stock	Price	+ or −	Div Net	C'vr	Y'ld Gr's
105	30	Anglo-Dominion	105	+17½	—	—	—
42	19½	Anglo Utd Dev	25	−½	—	—	—
80	27	Colby Res Corp	35	+2½	—	—	—
300	115	Cons. Murch. 10c	£2	.....	Q100c	ϕ	15.5
34	24	Emery Inv. Ir10p	24	.....	—	—	—
123	70	Greenwich Res	118	+6	—	—	—
157	93	Hampton Areas 10p	146	.....	ϕ1.0	—	1.0
327	165	Highwood Res	246	+3	—	—	—
£20¼	£13½	Homestake Mining $1	£19¾	.....	Q20c	—	0.7
310	156	McFinley Red Lake	221	+1	—	—	—
285	144	Nusto Explorations	176	.....	—	—	—
51	28	New Sabina Res C$1	35	−1	—	—	—
312	200	Northgate C$1	295	−5	—	—	—
790	513	RTZ	632	+2	22.0	2.4	5.0
£164	£115	Do. 9½pcLn '95-2000	£133¾	+¼	Q9½%	15.5	7.2

NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 29 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock".
- * Highs and Lows marked thus have been adjusted to allow for rights issues for cash.
- † Interim since increased or resumed.
- ‡ Interim since reduced, passed or deferred.
- ‡‡ Tax-free to non-residents on application.
- ϕ Figures or report awaited.
- ♥ Not officially UK listed; dealings permitted under Rule 535(4)(a).
- ✢ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Dealt in under Rule 535(3).
- ♯ Price at time of suspension.
- ¶ Indicated dividend after pending scrip and/or rights issue: cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress.
- ♣ Not comparable.
- ♠ Same interim: reduced final and/or reduced earnings indicated.
- ƒ Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ★ Cover does not allow for shares which may also rank for dividend at a future date. No P/E ratio usually provided.
- U No par value.

B.Fr. Belgian Francs. Fr. French Francs. ‡‡ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1986-87. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1986. K Figures based on prospectus or official estimates for 1984. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1985-86. N Dividend and yield based on prospectus or other official estimates for 1985. P Figures based on prospectus or other official estimates for 1983. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Stock	Price	+ or −
Albany Inv 20p	58xd	.....
Craig & Rose £1	£13½	.....
Finlay Pkg. 5p	47xd	−1
Holt (Jos) 25p	830xd	−10
Iold Stm. £1	75	+2
IRISH		
Fund 11¼% 1988	£99¾xd	.....
Nat. 9¾% 84/89	£95¼	−1⅛
Fin. 13% 97/02	£104½	.....
Arnotts	250	.....
CPI Hldgs	43	−5
Carrol Inds	111	−9
Dublin Gas	30	.....
Hall (R. & H.)	88xd	.....
Helton Hldgs.	29	−1
Irish Ropes	92½xd	.....
Unidare	232	.....

"Recent Issues" and "Rights" Page 39 (International Edition Page 29)

LONDON STOCK EXCHANGE

Account Dealing Dates

*First Dealings	Option Declarations	Last Dealings	Account Day
Sept 15	Sept 25	Sept 26	Oct 6
Sept 29	Oct 0	Oct 10	Oct 29
Oct 11	Oct 23	Oct 24	Nov 3

*"New-time" dealings may take place from 9.30 am two business days earlier.

Widespread slump in bonds and equities on fears of imminent rise in base lending rates

The renewed slide in the pound sent both fixed interest and equity stocks spiralling downwards in London. Fears that UK rates would have to be reised sharply in ordar to protect sterling ran high, despite a statement in Washington by Mr Rohin Leigh Pemberton, tha Governor of the Bank of England, that UK bank base rates would not rise yesterday.

Three-month interbank quickly moved above 11 per cent in early trading, heightening pereeptions that a rise in bank hase ratas of perhaps two percentage points cannot be long delayed. Three month interbank ended at 11¼ per cent, the highest level since last April, in markets slightly bemused by the Bank of England's tactics during the mnrning, when it supported sterling but held its interventinn retes unchanged in the domestic money markets.

Government bonds npened sharply lower, taking their cue from the futures market, where the December contract for lnng-dated bonds plunged by n full point in early trading. Tha contrect fell afresh in mid-afternoon and ended a net three points down at 108 12/32.

Losses in Government bonds ranged to ⅝ nf a point at the shnrt end and to 2¾ points in longer-dated issues. The market managed a brief rally in early afternoon when New York opened relatively steadily. But the recovery, which temporerily restored nne point of the enrly falts, proved little more than bear closing operations by professional traders. Prices soon relapsed and ended at the lowest levels of the day. The Financial Times Government Securities Index fell 1.64 to 81.75.

In the equity market, the concern over interest ratea was compounded by some mild confusion as most nf the johbing firms rearranged their trading stands in preparatinn for Big Bang Day. Bank shares tumhled as hank hase rates failed to follow the trend to higher rates in the money markets where the banks must finance their operations. Industrial stocks, too, opened the new trading account with widespread falls, giving gronnd sharply as the session progressed and tha gilt edged market remained flat.

Export-orientated stocks suffered major losses as the ponnd continued to fall away against the German mark. Prominent amnng those suffering donhle digit losses were ICI, Glaxo nnd Hawker Siddeley. The FT-SE 100 index closed down 29.4 points at 1539.2, its low point for the day. The FT Ordinary share index lost 25.8 to 1212.6.

Clearers retreat

The general malaise end reports that Mexico may miss the deadline imposed by the International Monetary Fund for reaching agreement on a fresh £4.17bn loan package prompted drah conditinns in the clearing banks. Marked defensively lower at the nntset, prices wilted further on persistent offerings to close et around the lowest levels of the day. **Lloyds** dropped 21 to 409p and **NatWest** 20 to 512p, whila **Midland** lost 16 to 537p and **Barclays** 13 at 464p. **Bank of Scotland**, a good market last week in reply in the excellent interim results, gave back 7 at 432p and **Royal Bank of Scotland** ended 6 off at 330p. Apart from **Hambros**, which improved 8 to 228p as investors found stock in short supply, merchant banks declined further. **Morgan Grenfell**, at 403p, lnst 7 more to stand 97 below last July's striking price, while **Mercury International** cheapened 5 to 280p, after 275p.

Sellers held sway among Composites which closed with fresh double-figure losses. **Royals** led the retreat with a fall of 28 to 764p and **San Alliance** dropped 18 to 649p. **General Accident** lost 10 at 792p as did **GRE**, at 782p.

Breweries reflected the current trend ln consumar-orientated counters, closing et tha day's lowest levels. **Bass** fell 18 to 685p, while **Whitbread A** dipped 8 to 243p.

Building and Cnnstructinn issues came under persistent and often heavy selling pressure following the latest npturn ln short-term interest rates.

Rugby Portland Cement edged np to 158p immediately following the better-than-expected half-year profits and dividend increase hut succumbed later to close a net penny aasier et 154p. Similarly, **Blue Circle** rose to 566p on weekend Press suggestinns that Australian group Adelaide Steamship had bullt up a near-5 per cent stake in the company hefore retreating to end the session 8 easier on halance at 555p. **J. Mowlem** were an exceptionally weak market and dropped 20 to 378p after news that the company had lost out in its hid to huild the proposed road bridge over tha River Thames at Dartford. **Trafalgar Heuse**, leading tha consortium selected to construct the hridge, eased 4 to 266p. **Watts Blake** fell 6 to 178p, despite the increased interim dividend and profits, whila **Dunton Group** eased 1½ to 17½p follnwing the preliminary results. Elsewhere, fnlls in the reginn nf 10 were cnmmon to **Costain**, 492p, **John Laing**, 361p, and **Alfred McAlpine**, 391p, while **Tarmac** dropped 18 to 418p. Househuilders provided notahle weak spots in **Federated Hnusing**, 20 offat 96p, **Barratt Developments**, 8 cheaper at 144p and **Countryside Properties**, 12 lower at 463p.

ICI lost ¼ at £10⅝. Elsewhere in Chemicals, **Ellis and Everard** hardened 3 to 194p ex the one-for-ten scrip issue, and **Allied Colloids** rose 10 to 225p.

Stores depressed

High street Retailers showed scaot sign of pnlling out nf their current dive as the likelihood of increased interest rates contined to cast a cloud over the sector's prospects. Despite a relatively steady start, quntations soon came under pressure and douhle-figure losses were commonplace by the close. **Harris Queensway**, 206p, **Combined English**, 213p, and **Burton**, 272p, all lost 10, while **Storehouse** fcll another 13 to 295p. **Marks and Spencer** finished nbove the day's worst, closing a net 5 cheaper at 187p, after 186p. Mail-orders were affected, notahly **Freemans** which fell 18 to 426p, and **Next**, 7 cheaper nt 234p. **Laura Ashley**, 175p, and **Etam**, 240p, lost ground ahead of their impending interim statements. In Newsagents, **John Menzies** revenled first-half profits above market expectations—some analysts had downgraded profits fnrecasts following the News International dispute—but tha shares, up to 313p in immediate response to the news, succumbed to close 4 down on halance et 306p. **Frank Usher** rose 4 to 96p and **Bremner** added e couple of pence to 62p after their respective mid-term results.

Leading Electricals succumbed further and **Cable and Wireless**, still unsettled by recent press comment, closed 8 lower at 284p. **Racal** relinquished the same amount at 156p nnd **BICC** dipped 5 to 235p. Secondary issues featured **United Scientific**, 8 dnwn at 145p on fading bid hopes. **Jones and Stroud** lost 13 et 240p nnd **VG Instruments** 30 to 440p. **Bowthorpe**, with interim results scheduled for October 7, fell 25 to 545p, while **Process Systems** chenpened 2 to 23p following news of tha annnal deficit. **American Electronic Components**, hnwever, moved np 3 to 24p in response to Press comment, and **Quest Automation** reflected revived speculative support with a gain of 9 to 40p. **AB Electronic** put on 5 to 335p after the annual figures.

Hawker were particularly vulnerable among the Engineering leaders, falling 24 to 423p nn persistent smell selling and lnck of support; the interim results are scheduled for October 22. **GKN** came on offer at 238p, down 6, while **TI** lost 13 to 407p. **Delta** retreated 8 to 162p and **Staveley** 7 to 503p. Elsewhere, **T. Robinson** declioed 15 to 310p following a newspaper's "take profits" edvice, and **Adwest** eased 5 at 208p following tha preliminery figures. **Hall**, however, attracted revived speculative support, and closed 8 dearer at 194p. **Porter Chadburn** finished the same amnunt better et 308p. **Aurora** rose a few pence to 63½p, after 66p, in response to Press comment.

Food retailers to lose ground included **Tesco**, down 9 at 383p, and **Asda**, 4 off at 146p. **Sainsbury**, whose interim results last year were announced ln November, hardened to 404p before closing 2 cheaper on balance at 400p. Few other stocks moved against the trend hut **Nermans** ancnuntered revival hid speculation following Press cnmment and rosa 4 to 57p.

Confirmatinn that Mr Chertes Knapp's **Trafalgar Holdings**, a US investment hanking group, had huilt up e near-five per cent holding ensured continued firmness in **Grand Metropolitan**, which improved 2 to 413p. Elsewhere, talk of **Kennedy Brookes** being ready to launch a hid fnr **Buckleys Brewery** toocbed nff selling of the former, finally 11 down at 211p. Small demand in a limited markt lifted **Nerscot** 8 to 163p.

NMW Computers Rally

The prospect of dearer credit continued to deter support of the miscellaneous industrial leaders. Consequently, quotations drifted stendily lower with **Glaxo** closing 20 down at 915. **Rank Organisation** 16 easier at 467p and **Metal Box** 10 off et 158p. **Beecham** gave np 9 at 381p and **Reed International** softened 7 at 365p. A few firm features emerged emnng the secondary issues. **NMW Computer**, down 50 on Friday following reports that its computerisatioo of the Stock Exchange had encountered prohlems, recovered 35 to 265p on relief thet e weekend dress rehearsal for the gilt-edged market computer system had been completed without any difficulties. Wcekend Press comment on its US Reebnk subsidiary helped **Pentland Industries** improve 5 at 440p, while **Dominion International** improved a couple nf pence to 110p follnwing details of the proposed ecquisition of Transcontineotel Corporation of the US for US$27m. **DSC** rose a few pence to 58p in respnnse to Prass cnmment end **Margan Crucible** firmed 6 to 261p on hid hopes. The weakness of the building sector was reflected in e declin of 10 to 295p in **English China Clays** and e loss nf 8 to 177p ln **Hepworth Ceramic**. **A. and P. Appledore** lost 10 to 190p as did **Bestwood** 470p, whila **Wolseley** plummeted 22 to 521p.

Heavler-priced Properties sustained losses ranging to 25. In thin trading, **Wingate** fell that much to 405p, while **Marler Estates** dipped 20 to 505p and USM-listed **Brookmount** rescted 17 to 283p. Leading issues ganerally escaped more lightly, elthough **MEPC** came back 5 to 310p. The husiest counter in the sector was **Egerton Trst**, following comment on ex-Bovis head Frank Senderson whn recently took control of the company and is diversifying into oursing homes. Egerton raced up to 9p before easing to clnse a net 14 higher at 87p.

Oils resilient

The oil sector held up well as firmer crude oil prices partly offset the effects of the geoeral decline. **BP** did little more than drift easier and settled 5 cheaper nt 655p, while **Shell** were e shade firmer at 898p. Reports, in the weekend Press that the Barclay hrothers had huilt up a near-10 per cent stake as a prelude to a full-scala hid triggered initial support fnr **1C Gas** which moved up to 508p before profit-taking left the shares a net 2 off at 500p. **Ultramar** rose 5 to 145p, helped by rumours that Rainbow Corporation of New Zealand have acquired e stake of around 5 per cent in tha company; Ron Brierley's **IEP Securities** recently announeed that its interest in Ultramar was 13.2 per cent.

Many of the secondary oils made progress. **Cluff Oil** added 8 at 36p in response to favourahle Press comment, while naws nf the proposed merger with Abraxas Petroleum of Texas boosted **Petrogen** 3 to 14p. **Conroy Petroleum** and **Natural Resources** continued their recent good run and moved up 5 more to e 1986 high of 168p amid persistent rumours nf nn imminent drilling report from its lead/zinc prospect in the Irish Republic.

Inchcape highlighted en otherwise idle session in Overseas Traders, rising 3 to 443p, after 446p, following the pleasing interim results shnwing pre-tax profits some £2m ahead of most expectations.

The latest weak performance nf precious metal prices resulted in widespread falls throughout South African mining markets for the fifth consecutive trading session. Bullion, which cama under pressore in the US late on Friday, dropped to around $425 early yesterday before staging e modest rally to close a net $8.25 off at $428.5. Platinum dipped around $7 from its closing lavel in New Yrrk nn Friday to trade around $570 in Londnn yesterday afternoon.

South Africen Golds were marked down sharply at the nutset and drifted further for much of the morning, mainly on lnck of interest, before rallying in line with hullion. The pound's latest decline also helped sterling prices pick up end the Gold Mines index was laft with a fall of 4.5 at 323.8.

Mntors provided a firm feature in **Kwik-Fit**, up 4 et 124p, after 128p, following interim profits above market estimates end a proposed 1-for-4 scrip issne. **Lucas**, nn the nther hnnd, remained friendless and fell 10 more to 480p, whila **Dewty** encountered lete offerings and dipped 7 to 186p. **Jaguar**, down to 498p at one stage, settled a net 9 cheaper at 501p. Distrihutors were usually easier for choice, although **BSG International** gained the turn to 46½p ahead of tomorrow's interim figures; brokers de Zoete and Bevan anticipate pre-tax profits of around £6.3m.

Paper/Printings again reacted to occasinnal offerings. **McCorquodale** eased 8 to 275p—a few pence below the hostile share-exchange bid from **Norton Opax**, unchanged et 140p. **Extel** eased 3 to 348p following suggestions that the company may enter the fray as a "white knight." **British Printing and Communication** dipped 8 for a two-way decline of 23 to 258p in the wake of Friday's slzeable share placing. **DRG** fell 6 to 264p in sympathy. Ireland's **Jefferson Smurfitt** eased 2 to 248p despite increased first-helf profits and the chairman's confident statement.

Advertising and related issues moved irregularly. **LRG**, which revealed acutely disappointing mid-term figures late last week, rallied 13 to 80p on recovery hopes, while fresh speculative interest took **Lopex** 15 higher to 128p. **Shandwick** rosa 5 more to 350p awaiting today's preliminary results and **Davidson Pearce**, scheduled to announce intarim figures today, put on a similar amount to 143p. Press comment and confirmation of new husiness lifted **TMD** 3 to 117p, while expansion hopes stimulated fresh enthusiasm for **WPP**, 22 up at 570p. **Charles Barker**, on the other hand, met renewed selling in the wake of last week's interim statement and fell a few pence more to 120p.

The lower bullion price, n further ris in the Australian dnllar and a marginal fall in overnight dnmestic markets comhined to produce a general retreat by Australians. Golds were particularly unsettled and **Gold Mines of Kalgoorlie** dipped 37 to 613p, **Cenertal Nerseman** 15 to 653p. **Sons of Gwalia** gave up 11 to 331p. **Emperor Mines** moved against the ternd and put on 7 to 7 to a 1986 high of 207p in response to Press comment on th proposed change of domicile to the Isle of Man, and the recent quarterly report.

Traded Options

Demand for Traded Options remained relatively steady with 20,227 contracts struck. Dealers again reported that business was evenly split between calls and puts. Hanson Trust attracted 942 calls and 1,378 puts, while British Telecom were also active with 1,301 calls and 284 puts traded. Boots returned to favour with 1,618 calls and 669 puts done. Particularly busy conditions developed in the FT-SE 100 index contract, which contributed 1,180 calls and 2,485.

Traditional Options

- First Dealings Sept 22 Oct 6 Oct 20
- Last Dealings Oct 3 Oct 17 Oct 31
- Last Declaration Dec 18 Jan 8 Jan 22
- For Settlement Dec 29 Jan 19 Feb 2

For rate indications see end of Unit Trust Service

Call options were taken out in **Amstrad, Blue Circle, North Kalgurli, Racal, London and Northern, Bolton Textile, J. E. England, Davidson Pearce, Leisuretime International, Prestwich, Ifico, Ecobric, Lamont, Sears, Samson** and **Energy Capital**. A put was done in **Glaxo**, while doubles were taken out in **Wellcome** and **Abaco Investments**.

FINANCIAL TIMES STOCK INDICES

	Sept 29	Sept 26	Sept 25	Sept 24	Sept 23	year ago	1986 High	1986 Low	Since Compilation High	Since Compilation Low
Government Secs	81.75	83.39	83.06	83.35	84.51	83.91	94.51 (18/4)	80.39 (20/1)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	89.96	90.44	90.68	90.92	91.24	89.91	97.68 (7/7)	86.55 (23/1)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary ♥	1,212.6	1,238.4	1,242.3	1,264.5	1,271.9	999.4	1,425.9 (3/4)	1,094.3 (14/1)	1,425.9 (3/4/86)	49.4 (26/6/40)
Gold Mines	323.8	328.3	336.2	339.1	344.8	297.7	357.8 (22/9)	185.7 (12/7)	734.7 (15/2/83)	43.5 (26/10/71)
Ord. Div. Yield	4.56	4.46	4.45	4.38	4.35	4.77				
Earnings Yld.% (full)	10.47	10.26	10.23	10.07	10.01	11.69				
P/E Ratio (net) (*)	11.71	11.95	11.98	12.18	12.25	10.61				
Total Bargains (Est.)	21,631	21,638	20,860	21,034	18,041	20,428				
Equity Turnover £m.	–	746.28	527.31	487.36	525.55	277.47				
Equity Bargains	–	22,839	18,003	17,114	21,304	18,310				
Shares Traded (mil)	–	348.0	241.7	223.4	233.1	173.5				

S.E. ACTIVITY

Indices	Sept. 26	Sept. 25
Gilt Edged Bargains	118.5	126.1
Equity Bargains	148.0	116.6
Equity Value	1508.4	1065.8
5-Day Average		
Gilt Edged Bargains	123.1	124.1
Equity Bargains	119.2	110.6
Equity Value	1076.9	981.7

♥ Opening	10 a.m.	11 a.m.	Noon	1 p.m.	2 p.m.	3 p.m.	4 p.m.
1233.6	1230.5	1228.7	1225.6	1223.4	1221.9	1219.8	1215.2

Day's High 1233.7. Day's Low 1212.6.

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold Mines 12/9/55, SE Activity 1974 *Nil=11.24.

LONDON REPORT AND LATEST SHARE INDEX: TEL. 01-246 8026

YESTERDAY'S ACTIVE STOCKS

Above average activity was noted in the following stocks yesterday

Stock	Closing price	Day's change	Stock	Closing price	Day's change
Barton Group	272	−10	Kwik-Fit	124	+4
Dixons Group	324	−12	Marks & Spencer	187	−5
Egerton Trust	85	+12	Mowlem (J.)	376	−20
Harris Queensway	206	−12	Rank Organisation	467	−16
Hawker Siddeley	423	−24	Ratners (Jwlrs)	203	−7
Jaguar	501	−9	Vaal Reefs	£56¼	[illegible]

FRIDAY'S ACTIVE STOCKS

Based on bargains recorded in Stock Exchange Official List.

Stock	No. of changes	Fri's close	Day's change	Stock	No. of changes	Fri's close	Day's change
Glaxo	25	935	+ 5	McCorquodale	20	283	+18
Amstrad	22	130	− 2	Sears	20	111	− 1
Imp. Cont. Gas	22	502	+14	GKN	19	244	−10
Pentland Inds	22	435	−15	Shell Trans	19	895	− 8
Cons. Gold Flds	21	577	+24	Utd. Scientific	19	153	− 4
Hanson Tst.	20	181	− 4	Cable & Wire.	18	290	− 8

†Charge based on price at suspension.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	0	111	2
Corporations, Dom., and Foreign Bonds	6	39	24
Industrials	412	658	458
Financial & Properties	152	224	200
Oils	49	28	36
Plantations	6	3	3
Mines	55	72	58
Others	60	87	45
Totals	740	1,222	826

NEW HIGHS AND LOWS FOR 1986

NEW HIGHS (52)

AMERICANS (1) Tenneco 10pc Ln 1991/5; CANADIANS (1) Inland Nat. Gas; BREWERS (1) Macdonald Martin A; BUILDINGS (4) Anglia Sec. Homes, Howard Shuttering, Ward Hldgs., Wettern Bros.; STORES (2) Browns (C.) Car Part, Dunhill Hldgs.; ELECTRICALS (3) NEC Corp., Toshiba Corp., Zygal Dynamics; ENGINEERING (2) Booth Inds., Hampson Inds.; FOODS (1) Freshbake Foods; INDUSTRIALS (6) Bluebird Toys, Cathay Pacific, Hodgson Hldgs., Lifeshelf, Résmor, Toothill (R. W.); LEISURE (3) Central TV N/V, Stanley Leisure, Thames TV; MOTORS (1) Aerospace Eng.; PAPER (2) Horne (Robert), WPP; PROPERTY (1) Ests. & General; SHIPPING (1) London & O'seas Freight; TRUSTS (12) Archimedes Inc., German Smaller Inv., Greenfriar Inv., Laida Inv. Inc., Marine Adv. S. Trust, Mid Wynd Inv. Trust, Pacific Assets Trust, Plantation Trust, St. David's Inv. Trust Cap., TR Natural Resources, Throgmorton Sec. Growth; OILS (1) Conroy Pet. Nat. Res.; PLANTATIONS (1) Assam Dooars; MINES (1) [illegible] Margaret Gold, Southern Ventures, Swan Resources, Whim Creek, Anglo-Dominion.

NEW LOWS [illegible]

BRITISH FUNDS (99); INT. BANK & O'SEAS GOVT. STLG. ISSUES (4); LOANS (8); FOREIGN BONDS (1); AMERICANS (1); BREWERS (1); BUILDINGS (3); CHEMICALS (2); STORES (1); ELECTRICALS (1); ENGINEERING (6); FOODS (1); HOTELS (2); INDUSTRIALS (5); INSURANCE (6); LEISURE (1); NEWSPAPERS (1); PAPER (6); PROPERTY (5); SHIPPING (2); TRUSTS (3); OILS (4); OVERSEAS TRADERS (1); MINES (1).

FT-ACTUARIES INDICES

These Indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

EQUITY GROUPS & SUB-SECTIONS — Monday September 29 1986

Figures in parentheses show number of stocks per section

	Equity groups & sub-sections	Index No.	Day's Change %
1	CAPITAL GOODS (211)	637.60	−1.7
2	Building Materials (26)	742.45	−2.8
3	Contracting, Construction (31)	1138.82	−2.8
4	Electricals (12)	1696.68	−2.0
5	Electronics (38)	1365.94	−1.5
6	Mechanical Engineering (60)	350.25	−2.9
8	Metals and Metal Forming (7)	326.62	−1.4
9	Motors (16)	259.71	−1.8
10	Other Industrial Materials (21)	1182.65	−0.6
21	CONSUMER GROUP (184)	886.83	−1.5
22	Brewers and Distillers (22)	883.35	−1.5
25	Food Manufacturing (23)	669.78	−0.9
26	Food Retailing (15)	1842.03	−1.8
27	Health and Household Products (10)	1449.34	−1.8
29	Leisure (28)	886.73	−0.6
31	Publishing & Printing (14)	2525.90	−1.6
32	Packaging and Paper (15)	448.03	−2.0
34	Stores (38)	810.99	−3.0
35	Textiles (17)	518.15	−1.9
36	Tobaccos (2)	1228.72	−0.7
41	OTHER GROUPS (88)	732.93	−1.7
42	Chemicals (20)	960.24	−1.6
44	Office Equipment (4)	224.58	−3.2
45	Shipping and Transport (13)	1436.44	−1.8
46	Telephone Networks (2)	801.25	−1.4
48	Miscellaneous (49)	1012.78	−0.7
49	INDUSTRIAL GROUP (483)	790.45	−1.7
51	Oil & Gas (17)	1329.37	−0.7
59	500 SHARE INDEX (500)	835.90	−1.5
61	FINANCIAL GROUP (118)	569.47	−2.2
62	Banks (7)	628.55	−3.4
65	Insurance (Life) (9)	802.03	−2.4
66	Insurance (Composite) (7)	438.02	−2.7
67	Insurance (Brokers) (9)	1154.04	−2.0
68	Merchant Banks (12)	317.72	−2.3
69	Property (50)	727.91	−1.3
70	Other Financial (24)	333.43	−0.4
71	Investment Trusts (100)	771.60	−0.5
81	Mining Finance (2)	301.95	−0.1
91	Overseas Traders (14)	664.25	−0.8
99	ALL-SHARE INDEX (734)	762.47	−1.5

	Index No.	Day's Change	Day's High	Day's Low	Sept 26	Sept 25	Sept 24	Sept 23	Sept 22	Year ago
FT-SE 100 SHARE INDEX ♦	1539.2	−29.4	1562.8	1539.2	1568.6	1575.9	1643.4	1610.0	1617.1	1306.9

FIXED INTEREST

	Price Indices	Mon Sept 29	Day's change %	Fri Sept 26	xd adj. today	xd adj. 1986 to date
	British Government					
1	5 years	117.48	−0.67	118.64	0.37	9.13
2	5-15 years	128.34	−2.00	131.19	0.22	10.09
3	Over 15 years	134.19	−2.36	137.44	–	10.05
4	Irredeemables	148.75	−2.14	152.01	–	8.90
5	All stocks	126.81	−1.64	129.17	0.24	9.85
	Index-Linked					
6	5 years	110.75	−0.43	111.23	–	2.00
7	Over 5 years	110.02	−0.79	111.90	–	2.53
8	All stocks	110.92	−0.73	111.73	–	2.43
9	Debentures & Loans	111.63	−0.29	112.57	0.61	8.12
10	Preference	81.94	−0.79	82.97	0.38	5.04

AVERAGE GROSS REDEMPTION YIELDS: [illegible]

♦Opening index 1562.3; 10 am 1560.0; 11 am 1558.6; Noon 1555.7; 1 pm 1553.4; 2 pm 1550.9; 3 pm 1548.3; 3.30 pm 1543.1; 4 pm 1542.6.

† Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A new list of constituents is available from the Publishers, the Financial Times, Bracken House, Cannon Street, London EC4P 4BY, price 15p, by post 28p.

LONDON TRADED OPTIONS

Option		Calls Oct.	Calls Jan.	Calls Apr.	Puts Oct.	Puts Jan.	Puts Apr.
Allied Lyons (*298)	300	11	20	30	14	18	25
	330	4	10	17	40	45	48
	360	1½	4	8	65	70	73

Option		Calls Nov.	Calls Feb.	Calls May	Puts Nov.	Puts Feb.	Puts May
Midland Bk (*537)	300	57	72	87	8	12	17
	550	25	40	57	25	30	37
	600	10	18	27	62	62	65

[illegible]

September 29. Total Contracts 20,227. Calls 11,577. Puts 8,650. *Underlying security price.

EUROPEAN OPTIONS EXCHANGE

Series		Nov. Vol.	Nov. Last	Feb. Vol.	Feb. Last
GOLD C	$360	30	72	–	–
GOLD C	$380	19	56	–	–
GOLD C	$420	98	23	82	38
GOLD C	$440	26	15.50	22	28.50

[illegible]

TOTAL VOLUME IN CONTRACTS: 46,380

A=Ask B=Bid C=Call P=Put

BASE LENDING RATES

[illegible]

WORLD STOCK MARKETS

AUSTRIA

Sept. 29	Price Sch.	+ or −
Credit'nst'lt pp	2,995	−25
Goesser	6,460	+30
Interunfall	13,750	+150
Jungbunzlauer	19,200	−50
Laenderbank	2,870	+10
Perlmooser	835	+2
Steyr Daimler	168	+1
Veitscher Mag	10,200	......

BELGIUM/LUXEMBOURG

Sept. 29	Price Frs.	+ or −
B.B.L.	3,130	......
Banq. Gen. Lux	16,300	......
Banq. Int.A.Lux	16,000	+50
Bekaert	10,500	−100
Ciment CBR	3,855	−95
Cockerill	147	−5
Delhaize	5,150	......
EBES	4,720	+10
Electrobel	14,925	......
Fabrique Nat	2,050	......
GB Inno BM	7,900	......
GBL (Brux)	6,540	−30
Generale Bank	6,070	−90
Gevaert	6,160	−90
Hoboken	7,690	−100
Intercom	3,555	−45
Kredietbank	15,925	......
Pan Holding	11,350	......
Petrofina	9,170	−20
Royale Belge	25,600	......
Soc. Gen. Belge	3,045	−25
Sofina	11,400	+98
Solvay	7,720	−130
Stanwick Intl	260	......
Tractionel	6,210	−20
UCB	8,400	−300
Wagons Lits	5,760	+70

DENMARK

Sept. 29	Price Knr %	+ or −
Andelsbanken	320	−3
Baltica Skand	600	−20
Cop Handelsb'nk	257	−1
D. Sukkerfab	363	−2
Danske Bank	278	−8
De Danske Luft	1,750	−20
East Asiatic	189	−2
Forenede Brygg	1,000	......
Forenede Damp	190	−8
GNT Hld	350	−5
I.S.S.B.	685	+5
Jyske Bank	495	−5
Novo Ind	224	−10
Privatbanken	246	−4
Provinsbanken	229	−1
Smidth (F.L.) B	299	−2
Sophus Berend	790	......
Superfos	161	+5

FRANCE

Sept. 29	Price Frs.	+ or −
Emprunt 4½% 1973	1,775	−16
Emprunt 7% 1973	9,500	−136
Accor	440	−6
Air Liquide	740	−9
BIC	605	+1
Bongrain	2,135	−6
Bouygues	1,340	−44
BSN Gervais	4,160	−40
CIT Alcatel	1,238	−45
Carrefour	3,350	−40
Club Mediter'n	580	−5
Cie Bancaire	1,160	−34
Cofimeg	408.6	......
Damart	2,275	+75
Darty	3,600	−40

GERMANY

Sept. 29	Price Dm.	+ or −
AEG	306	−4
Allianz Vers	2,195	−100
BASF	279	−2.1
Bayer	290	−4
Bayer-Hypo	567	−7
Bayer-Verein	525	+1
BHF Bank	496	−3
BMW	507	−5
Brown Boveri	503	−6
Commerzbank	311	−4.5
Cont'l Gummi	315	−6.6
Daimler-Benz	1,323	−21
Degussa	482	−8
D'sche Babcock	192	−3
Deutsche Bank	780	−7
Dresdner Bank	398	−10
Feld-Muehle Nbl	295.8	−3.3
Henkel	461	−0.6
Hochtief	1,035	+10
Hoechst	265.5	−3.6
Hoesch werke	132	−6
Holzmann (P)	570	−4
Horten	221	−1.5
Hussel	575	−4
Karstadt	435	......
Kaufhof	497	−0.2
KHD	208	−6
Kloeckner	75	−1
Linde	788	−9
Lufthansa	183	−2
MAN	930	−9
Mannesmann	163.1	−4.7
Mercedes Hld	1,093	−19
Metallgesell	328	−2
Muench Rueck	2,450	+50
Nixdorf	696	−10
Porsche	1,005	−15
Preussag	218	+4
Rhein West Elect	201	−1.5
Rosenthal	372	......
Schering	606.5	−6.5
Siemens	670	−9.5
Thyssen	144.5	−0.8
Varta	330	−6
Veba	263	......
V.E.W.	161	−1.2
Verein-West	475	......
Volkswagen	473	−2.2

ITALY

Sept. 29	Price Lira	+ or −
Banco Com'le	23,950	......
Bastogi-IRBS	692	−6
Centrale	6,595	......
C.I.R.	8,240	−10
Credito Italiano	3,401	−21
Fiat	15,250	−230
General Assicur	112,380	+300
Italcementi	80,900	+700
La Rinascente	796	−28
Montedison	3,540	+50
Olivetti	15,520	−280
Pirelli Co	7,420	......
Pirelli Spa	6,020	−110
Saipem	4,601	−9
Snia BPD	6,100	−50
Toro Assic	33,600	−200

NETHERLANDS

Sept. 29	Price Fls	+ or −
ACF Holding	59xc	−1.7
AEGON	82.2	−3.8
Ahold	92.3	−2.2
AKZO	142xr	−4.6
ABN	536	−18
AMEV	74	−3
AMRO	92.4	−3.0
Bredero Cert	159	−5.5
Bos Kalis Westm	12.6	−0.5
Buehrmann Tet	202	−1

NORWAY

Sept. 29	Price Kroner	+ or −
Bergens Bank	171	+1
Borregaard	355	......
Christiania Bank	195	+3
DenNorske Cred	173	......
Elkem	114	−0.5
Kosmos	149	+1
Kvaerner	185.5	+0.5
Norcem	107	−8
Norsk Data	912	−2.5
Norsk Hydro	148	−4
Storebrand	285	......

SPAIN

Sept. 29	Price Pts %	+ or −
Bco Bilbao	1,250	+60
Bco Central	832	+15
Bco Exterior	416	+15
Bco Hispano	490	+20
Bco Popular	1,300	+60
Bco Santander	852	+27
Bco Vizcaya	1,540	+40
Dragados	354	......
Hidrola	124	+5.5
Iberduero	174.5	+8.3
Petroleos	375	+18
Telefonica	189.8	+9.0

SWEDEN

Sept. 29	Price Kroner	+ or −
AGA	184	−2
Alfa-Laval B	320	+5
ASEA (Free)	338	−7
Astra (Free)	500xc	......
Atlas Copco	216	−2
Beijer A B	173	......
Cardo (Free)	306	......
Cellulosa	255	−3
Electrolux B	295	−2
Ericsson B	230	−3
Esselte	128xc	−4
Mo och Domsjo	285	−5
Pharmacia	188	−2
Saab Scania Free	715	......
Sandvik	154	−2
Skandia	600	......
SKF	338	−3
StoraKopparbrg	612	......
Swedish Match	421	+1
Volvo B (Free)	362	−7

SWITZERLAND

Sept. 29	Price Frs.	+ or −
Adia Intl	7,575	−25
Alusuisse	592	−20
Bank Leu	3,700	......
Brown Boveri	1,560	+10
Ciba Geigy	3,490	−10
do. (Part Certs)	2,600	+5
Credit Suisse	3,620	−30
Elektrowatt	3,400	......
Fischer (Geo)	1,900	+10
Hoff-Roche PtCts	[illegible]	−250
Hoff-Roche 1/10	10,675	−175
Jacobs Suchard	7,950	+150
Jelmoli	3,590	−35
Landis & Gyr	1,610	−10
Nestle	8,300	−60
Oer-Buehrle	1,650	−30
Pirelli	469	+1
Sandoz (Br)	11,200	+200
Sandoz (Pt Cts)	1,690	......
Schindler (PtCts)	690	+10
Sika	1,500	−50
Surveillance A	7,790	+290
Swissair	1,300	−40
Swiss Bank	521	−4
Swiss Reinsce	16,500	−200
Swiss Volksbk	2,550	−20
Union Bank	5,685	−25

CANADA

TORONTO

Closing prices September 29

MONTREAL

Closing prices September 29

Indices

OVER-THE-COUNTER *Nasdaq national market, closing prices*

Continued from Page 39

NYSE COMPOSITE CLOSING PRICES

Continued from Page 39

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
26¼	18¾	AAR s	.44	2.1	16	107	21½	21	21⅝	
30	21¾	ADT	.92	3.7		63	25½	24⅝	24¾	−¾
30	11½	AFG s	.08l	.3	15	780	28⅛	27	27½	−1
25⅞	13¾	AGS			13	74	18⅞	18⅝	18⅝	+⅛
15	9⅞	AMCA			253	7	10⅛	10½	10⅛	−⅛
60⅝	37½	AMR			14	3227	55¾	54⅝	55¾	−⅛
27½	23¼	ANR pf 2.67		10.		4	26¼	25¾	26¼	+½
12½	9⅝	APL			7	142	n13⅛	12⅛	13½	+1⅞
16¾	10	ARX	.71t	6.5	19	22	11	10⅝	10⅞	−⅛
41⅛	26¾	ASA	2a	5.3		1187	38¾	37¼	37⅞	−⅞
18⅝	9¾	AVX		3.1		33	10⅞	10½	10¼	−½
32	22¾	AZP	2.72	9.5	6	1077	29⅛	28⅝	28¾	−¼
55	28⅝	AbtLb s .84		2.0	19	5388	42	41½	41¾	−½
32	19¾	AccoWd.56		2.2	17	30	25⅝	25¼	25¼	−¼
14⅞	6	AcmeC .40		4.1		84	10	9¾	8⅛	−⅛
9¼	6¼	AcmeE.32b		4.7	15	15	8⅞	6¾	6⅞	−⅛
22⅝	17	AdaEx 1.90e		9.6		30	19⅞	19⅝	19⅞	
33⅝	17	AdmMl .40		1.7	11	14	66⅞	25⅞	23⅞	−⅛
20⅝	18	AdvSys.83t		6.3	12	137	13½	13⅛	13⅛	−¼
32⅞	14⅛	AMD				3033	16¼	15¼	15⅝	−⅛
12⅝	5⅝	Adobe n				1	6¾	6¾	6¾	−⅛
16⅝	13⅛	Adob pf 1.84		18.		87	15⅝	15	15	−¾
20¼	15¼	Adob pf 2.40		14.		159	16	17⅝	17⅝	−½
16⅝	7⅝	Advest .12a		.8	10	418	16⅞	12⅝	12⅞	−⅜
66¼	43¼	AetnLf 2.64		4.6	16	4315	57¾	56⅝	57⅛	−¾
121⅛	00¼	AetL pfC2.78e		3.1		x126	89	d87¼	89	+1⅛
28¾	9⅞	Ahmns s .48		2.3	6	3736	20½	24	20¼	−⅛
5¾	2⅝	Aileen			46	45	3½	6⅛	3¼	−¼
[illegible]										

Kidder, Peabody Securities
Limited

Market Makers in Euro-Securities

An affiliate of
Kidder, Peabody & Co.
Incorporated
Founded 1865 • Member SIPC
New York • London • Paris • Geneva • Zurich • Hong Kong • Tokyo

Continued on Page 39

NYSE COMPOSITE CLOSING PRICES

Continued from Page 38

[illegible]

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close	Ch'ge
15¼	4⅞	Vestrn n			7	1357	5⅛	4⅞	5⅛	+⅛
42½	23⅞	Viacm s .28		.7	192	3491	40⅜	40¼	40⅜	−¼
101	80	VaEP pf7.72		8.3		z80	93	93	93	
103	78¼	VaEP pf8.84		9.0		z100	99	99	99	
92⅞	63	VaEP pf7.20		8.4		z150	86	85	85	−⅛
98¼	67	VaEP pf7.45		8.5		z20	87¼	87¼	87¼	+1¼
24⅞	18	Vishay			13	213	19¼	d17	17⅞	−1½
85	62	Vornad			20	45	74	72¼	74	+2
116	81⅞	VulcM 2.80		2.5	16	29	113¼	112	112	−1½
		W W W								
48	27¼	WICOR 2.60		6.3	16	26	42	41¼	41¼	−1
52	41⅞	WebR pf4.50		8.7		z100	52	52	52	+17¼
40	17⅞	Wackht .20		3.1	14	60	19¼	19⅛	19¼	−½
8	4	Wainoc				6	4⅜	4⅜	4⅜	
53⅞	24	WalMrt .17		.4	31	3653	41⅞	40⅜	41¼	−⅛
39½	22½	Walgrn .50		1.7	18	1379	30⅜	30¼	30¼	−⅜
27⅞	18⅞	WalRegl 1.48				953	27¼	27⅛	27¼	+⅛
50⅞	32⅞	WalCSv .50		1.2	17	157	41	40⅞	40⅞	−1⅛
54⅞	28	WalU s 1.40		3.2	10	1175	44⅜	42⅜	43¼	−1⅛
26⅞	15⅛	WmC s .30		1.4	13	1104	21⅞	21¼	21¼	−⅜
59	46¼	WmC pf3.60		7.4		166	49¼	48⅜	49	−⅜
63⅞	33¼	WarnrL 1.56		2.9		3275	54	52⅜	53¼	−1
30⅞	19⅞	WashG 4.76		6.3	12	86	27⅞	27⅜	27⅜	+⅛
35⅝	22¼	WatNat .80		3.5	11	79	31⅜	31¼	31¼	−⅜
31⅝	27⅝	WatWt 2.48		9.1	11	369	27⅜	27	27¼	−⅛
56½	27⅞	Waste s .56		1.2	26	2995	46⅜	45⅞	46¼	−1¼
42½	21⅝	WatkJn .40		1.2	15	208	34½	34	34	−½
23½	8⅞	WayGo 20		.9	33	32	21¾	21⅝	21¾	+¼
58½	19¼	WayG pf1.60		3.7		16	43¼	43¼	43¼	
5⅝	2	WeanU				27	2½	2¼	2½	+¼
28¼	16½	WebbD .20		.9	10	312	21⅞	21¼	21⅝	
11⅞	5⅜	Wedtch			6	66	6⅞	6⅝	6⅝	−⅛
28	18	WeingRi .56		7.1	18	69	22	21⅞	21⅞	+⅛
42	31⅛	WeisMk .54		1.6	17	18	34¼	34⅜	34⅜	−⅛
115	59⅜	WellsF 2.72		2.8	11	393	98¼	97⅜	97¼	−⅜
29	20⅞	WelFM 2.60		9.7	12	546	28	28⅜	28⅜	+⅜
17¾	10⅛	Wendys .20		1.7	14	1217	12¼	12	12	−⅜
34¼	22⅝	WestCo .52		2.0	14	2	26½	26½	26½	−⅛
90	42	WPenPpf4.50		8.4		z100	54	53½	53½	−1½
50⅝	37¼	WstPtP 2.20a		4.7	12	89	47⅜	46⅞	47	−⅛
12⅞	9¼	WactTg 1.04				1	9½	9¼	9½	
13	5⅝	WnAirL			24	2615	11⅞	11⅞	11⅞	
6	1⅜	WAir wt				140	2⅝	2⅝	2⅝	−⅛
4⅞	⅞	WCNA				1353	1	⅞	15-16	−1-16
174	107	WPacI 2.25e		1.3	18	365	171	169½	170	
20	11⅛	WstnSL .20		1.1	7	84	18¼	13¼	18⅜	−¼
15½	3⅝	WUnion				1156	4⅞	4⅝	4⅞	−⅛
45½	18	WnUn pf				6	29½	29½	29½	−1
7⅝	2⅞	WnU pfS				12	3⅝	3½	3½	−¼

Continued on Page 37

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E-price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls – sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-divident or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE CLOSING PRICES

[illegible]

OVER-THE-COUNTER

Nasdaq national market, closing prices

[illegible]

Continued on Page 37

FINANCIAL TIMES
WORLD STOCK MARKETS

WALL STREET

IBM profits warning hits blue chips

INVESTOR CONCERN over the stalemate in weekend talks on global economic policies depressed financial markets on Wall Street yesterday, *writes Roderick Oram in New York.*

With the dollar showing renewed weakness, bond prices dropped about one point at the long end before recouping some of the losses. Stock markets took the cue and fell steeply before making a partial afternoon recovery. Trading was light with declining shares out numbering rising by about four to one.

The Dow Jones industrial average of blue chip stocks was down 32 points at its worst during the day but managed to close only 14.49 points off at 1,755.20, its lowest end-of-session level since April 7.

The New York Stock Exchange all-share composite index fell 1.33 points to 132.61 with declining shares outnumbering rising by about four to one.

The downturn of the Dow Industrial was heavily influenced by IBM which fell $1⅛ to $134⅝. The shares were hard hit when several analysts warned that third quarter profits could be around $2 a share, or slightly lower, compared with $2.40 a year earlier.

Among other blue chips, GM was off $⅝ at $68⅝, United Technologies was down $⅛ at $42⅞, General Electric was off $1 at $71⅛ and Merck was down $⅝ at $99⅝. Among the few rising shares, Procter and Gamble rose $⅝ to $67⅞ and Exxon was up $⅛ at $66⅛.

The Dow Transportation index went against the trend managing to close up 5.38 points at 789.63 level mainly because Federal Express soared $8⅛ to $63⅞. It announced it was ending its heavily loss making ZapMail service and taking a $190m writeoff.

On the takeover front, Campeau raised its offer for Allied Stores to $66 a share from the $58 rejected earlier by Allied. The most heavily traded NYSE stock, Allied rose $2⅞ to $63⅞.

Anderson Clayton fell $4⅞ to $65⅝ following Quaker Oats' agreed bid of $66 a share. Quaker lost $3 to $70.

CP National fell $3⅝ to $32½ after it rejected a one-for-one swap with Pacificorp which was unchanged at $34.

Centel fell $1 to $31 after it agreed to a share swap takeover by Comsat. The deal, worth $2.4bn, will create a major new force in US telecommunications.

Allied Supermarkets gained $1⅛ to $9 following its agreed $660m sale to Vons, a southern California supermarket chain acquired by a group of investors in January. The Allied-Vons merger will create a public company with $3.5bn in annual sales.

Mayflower, a furniture moving group, rose $3⅛ to $27⅞ after a management team said they were trying to arrange a buy out at a price to be set later.

Resorts International fell $2⅛ to $47 as the bid from Pratt Hotels ran into resistance from some Resorts shareholders.

Hitachi rose $5⅝ to $71⅛ after it announced a cut in executives' wages to help combat the high-priced yen.

Stock markets took their overall tone from the bond market which experienced a sharp sell off at the opening but pulled back a little later. The main influence was the failure of weekend meetings in Washington among leading industrialised countries to agree on medium term economic strategy. This prompted fears of a lower dollar as the only mechanism to help the US reduce its huge trade deficit.

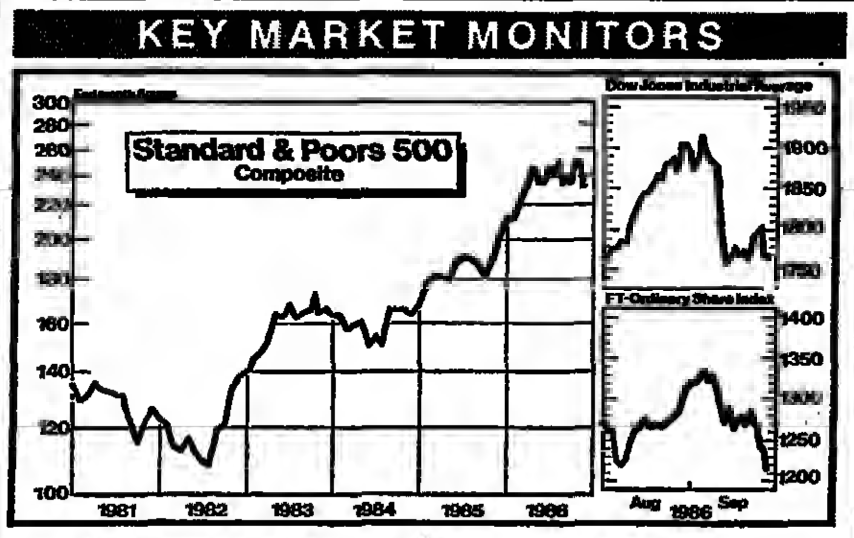
August's deficit will be published today but many economists are reluctant to forecast its size because of wide and unexpected swings in monthly data. July's deficit was $18bn. The other key statistic this week is September's unemployment rate due out on Friday. It is likely to be little changed from August's 8.8 per cent.

After reasonable gains until last week, bond prices fell by up to a point yesterday with the greater losses coming in longer maturities. The price of the benchmark 7.25 per cent coupon Treasury bond due 2016 closed 21/32 of a point to 94¾ at which it yields 7.69 per cent.

Three month Treasury bill yields rose six basis points to 5.27, six-month bills rose five basis points to 5.41 per cent and year bills gained six basis points to 5.56 per cent.

The Federal Reserve Board arranged two-day system repurchases when the Fed funds rate stood at 5 13/16 per cent. It closed at 5 15/16 per cent.

KEY MARKET MONITORS



STOCK MARKET INDICES

	Sept 29	Previous	Year ago
NEW YORK			
DJ Industrials	1,755.20	1,769.69	1,320.79
DJ Transport	789.63	784.25	643.61
DJ Utilities	198.84	201.75	150.08
S&P Composite	229.91	232.23	181.29
LONDON			
FT Ord	1,212.6	1,238.4	989.6
FT-SE 100	1,539.2	1,568.6	1,280.70
FT-A All-share	762.47	774.34	626.24
FT-A 500	835.90	848.61	687.98
FT Gold mines	323.8	328.3	297.7
FT-A Long gilt	10.59	10.31	10.25
TOKYO			
Nikkei	18,106.31	17,960.69	12,538.7
Tokyo SE	1,532.50	1,503.45	1,010.30
AUSTRALIA			
All Ord.	1,257.2	1,259.0	980.5
Metals & Mins.	638.5	644.6	518.1
AUSTRIA			
Credit Aktien	237.49	238.53	n/a
BELGIUM			
Belgian SE	3,855.34	3,876.55	2,453.25
CANADA			
Toronto			
Metals & Minls	2,132.30	2,156.05	1,906
Composite	2,961.80	2,981.90	2,650.9
Montreal			
Portfolio	1,489.38	1,498.78	129.51
DENMARK			
SE	198.50	199.91	216.20
FRANCE			
CAC Gen	384.20	386.40	212.1
Ind. Tendance	148.40	148.20	77.48
WEST GERMANY			
FAZ-Aktien	651.29	662.94	523.11
Commerzbank	1,952.80	1,985.10	1,540.9
HONG KONG			
Hang Seng	2,064.30	2,034.36	1,511.80
ITALY			
Banca Comm.	746.40	750.90	402.13
NETHERLANDS			
ANP-CBS Gen	274.80	279.50	212.9
ANP-CBS Ind	274.50	279.70	186.9
NORWAY			
Oslo SE	371.24	373.80	362.78
SINGAPORE			
Straits Times	812.97	821.64	787.79
SOUTH AFRICA		Prev	Year Ago
JSE Golds	—	1,843.0	1,087.9
JSE Industrials	—	1,391.0	989.1
SPAIN			
Madrid SE	199.23	191.91	80.88
SWEDEN			
J & P	2,438.75	2,470.12	1,378.21
SWITZERLAND			
Swiss Bank Ind	543.70	548.40	465.1
WORLD	Sep 28		
MS Capital Int'l	—	342.2	219.5

COMMODITIES

(London)	Sep 29	Prev
Silver (spot fixing)	392.00p	400.95p
Copper (cash)	964.0	£938.85
Coffee (Sept)	2,435	£2,462.50
Oil (Brent blend)	$13.75	$13.50

GOLD (per ounce)

	Sept 29	Prev
London	$427.75	$436.75
Zürich	$428.5	$433.25
Paris (fixing)	$426.45	$427.23
Luxembourg	$430	$436.50
New York (Dec)	$427.1	$431.5

CURRENCIES

	US DOLLAR		STERLING	
(London)	Sep 29	Previous	Sep 29	Previous
£	—	—	1.4335	1.4370
DM	2.0250	2.0455	2.90¼	2.94
Yen	153.60	154.35	220¼	221.75
FFr	6.63	6.70¾	9.50¾	9.63¾
SFr	1.6415	1.6610	2.35½	2.38¾
Guilder	2.2890	2.3125	3.28¼	3.32¾
Lira	1,400½	1,415	2,007¼	2,033
BFr	42.0	42.40	60.20	60.95
C$	1.3860	1.3885	1.9810	1.9955

INTEREST RATES

	Sep 29	Prev
Euro-currencies (3-month offered rate)		
£	10⅞	10⅞
SFr	4⅛	4⅝
DM	4⅞	4⅞
FFr	8⅛	8¾
FT London Interbank fixing (offered rate)		
3-month US$	6⅛	6⅞
6-month US$	6⅛	6⅞
US Fed Funds	5⅝*	5⅞
US 3-month CDs	5.80	5.24
US 3-month T-bills	5.25	5.22

US BONDS

Treasury	September 29 Price	Yield	Prev Price	Yield
6⅞ 1988	99⅝	6.44	100	6.375
7¼ 1993	99⅜	7.36	99⅝	7.273
7¼ 1996	99	7.52	99⅝	7.446
7¼ 2016	99⅝	7.70	99⅞	7.634

Source: Harris Trust Savings Bank

Treasury Index

Maturity (years)	Return index	Day's change	Yield	Day's change
1–30	155.18	–0.05	7.20	+.01
1–10	146.62	–0.04	6.88	+.01
1–3	139.83	–0.03	6.42	+.01
3–5	151.00	–0.11	7.10	+.03
15–30	178.82	–0.09	8.28	+.01

Source: Merrill Lynch

Corporate	September 29 Price	Yield	Prev Price	Yield
AT & T 3⅜ July 1990	91⅝	6.470	92.125	6.25
SCBT South Central 10⅞ Jan 1993	106⅞	9.561	108.25	9.561
Phibro-Sal 8 April 1996	97	8.464	97.724	8.33
TRW 8⅞ March 1996	101	8.591	101.5	8.513
Arco 9⅞ March 2016	104⅜	9.419	105.25	9.347
General Motors 8⅜ April 2016	88⅝	9.256	89.00	9.214
Citicorp 9⅞ March 2016	96	9.790	96.375	9.750

Source: Salomon Brothers
Yield calculated on semi-annual basis

FINANCIAL FUTURES

CHICAGO	Latest	High	Low	Prev
US Treasury Bonds (CBT) 8% 32nds of 100%				
Dec	94-13	94-31	94	95-21
US Treasury Bills (IMM) $1m points of 100%				
Dec	94.72	94.75	94.60	94.80
Certificates of Deposit (IMM) $1m points of 100%				
Dec	n/a	n/a	n/a	n/a
LONDON				
Three-month Eurodollar $1m points of 100%				
Dec	93.91	93.95	93.84	93.93
20-year Notional Gilt £50,000 32nds of 100%				
Dec	108-19	101	61	110

* Latest available figures

TOKYO

Spotlight on institutional favourites

FAVOURITE STOCKS of institutional investors provided some of the few bright moments in an otherwise declining Tokyo yesterday, *writes Shigeo Nishiwaki of Jiji Press.*

The Nikkei market average shed 74.90 from last Saturday to 18,106.31. Trading volume remained high at 1.226bn shares, although this was down from 2.07bn on Friday. The securities companies' new accounting year starts on Wednesday. Declines led advances 480 to 289, with 151 issues unchanged.

The Nikkei index has fluctuated wildly since Friday, with gains registered by some issues favoured by institutional investors, including stocks related to communications technology, consumer expansion, and large-capital stocks. The Tokyo exchange's price averages of large-capital stocks (Y10bn or more) rose 4.8 per cent yesterday from last Thursday, while those of medium-sized companies (between Y3bn and Y10bn) and small-sized firms (below Y3bn) fell 1.5 per cent and 1.7 per cent, respectively.

This meant the 10 most active stocks accounted for 64.6 per cent of total trading volume yesterday.

Communications-technology stocks, recommended by major securities companies, were the most popular. Mitsubishi Electric headed the active list with 127.2m shares changing hands. It climbed Y40 to Y570. Toshiba, with 101.4m shares traded, added Y36 to Y843, Hitachi, with 75.8m shares, Y40 to Y1,120, NEC, with 31.9m shares, Y130 to Y2,440, and Mitsubishi, with 39.4m shares, Y30 to Y1,490.

Matsushita Electric Industrial added Y50 to Y1,840, Sumitomo Electric Industries Y130 to Y1,930 and Toyota Motor Y20 to Y2,110.

The strength of these issues reflected growing hopes for high-priced quotes on stock of denationalised Nippon Telegraph and Telephone that will be sold at auction from Wednesday, market sources said.

Among giant capitals, Mitsubishi Heavy Industries, with 115.2m shares traded, firmed Y35 to Y655, Nippon Kokan, with 101.9m shares, Y10 to Y332, Ishikawajima-Harima Heavy Industries, with 96.5m shares, Y35 to Y599, Kawasaki Steel, with 58.8m shares, Y1 to Y271, and Tokyo Gas, with 46.5m shares, Y20 to Y1,150.

The yield on the benchmark 6.2 per cent government bond due in July 1995 rose from last Saturday's 4.660 per cent close to 4.685 per cent. On the inter-broker market, the yield climbed further to 4.700 per cent. However, most felt that the yield would not go much higher.

Market participants reacted calmly to reports that no agreement had been reached on co-ordinated discount rate cuts at the meeting of the group of seven industrial countries in Washington on Saturday.

SINGAPORE

CONCERN over corporate difficulties helped to depress sentiment in Singapore and shares closed lower on some profit-taking and nervous selling in a quiet market.

The Straits Times industrial index lost 8.67 to 812.97 in turnover of 13.6m shares compared with 14.1m on Friday.

The market was concerned by reports of heavier than usual withdrawals by depositors at some Malayan Banking branches in Malaysia on Saturday and by news of financial difficulties at 19 of the 24 co-operatives frozen by Malaysia's Bank Negara and of Promet's receivership.

But bargain-hunters kept prices from falling too far.

EUROPE

Madrid goes against easier trend

UNCERTAINTY over the outcome of the IMF and World Bank meetings left most bourses easier. The exception was Madrid, which chalked up its biggest one-day rise ever following Friday's budget.

Frankfurt recovered partially from a sharply lower start as some investors took advantage of bargains. But prices still closed lower across the board in lacklustre trading.

The banking counter saw Deutsche plunge DM 14 to DM 773 before recovering to end DM 7 below Friday's close at DM 780. Other banks followed Deutsche down, with Dresdner DM 10 lower at DM 398 and Commerzbank off DM 4.50 at DM 311.

Among carmakers, Daimler fell DM 21 to DM 1,223, VW DM 2.20 to DM 473 and BMW DM 5 to DM 607.

All blue chip chemicals dropped, with Degussa retreating DM 8 to DM 482, Bayer down DM 4 to DM 290 and BASF off DM 2.1 DM 272. Electricals saw Siemens lose DM 9.50 to DM 870 and AEG down DM 4 at DM 305, while Mannesmann among engineering stocks lost DM 4.70 to DM 163.10.

Bonds ended lower on investor disappointment that finance ministers of the leading industrial countries failed to agree cuts in interest rates at the weekend.

Long-term bonds fell by as much as DM 1, extending pre-bourse losses of 40 pfg. The Bundesbank bought DM 95.7m of domestic paper after buying DM 24.6m on Friday.

Economists and bond dealers at foreign banks said German bond prices could be boosted in the meidum term by fears that the US economy will enter a recession in the next six months.

Amsterdam lost ground from the start on the lack of positive news from the Washington finance meetings and on sharply lower prices in early trading on Wall Street.

Internationals fell on the lower dollar, with Unilever losing Fl 12.50 to Fl 468.50 and Akzo off Fl 4.50 to Fl 142xr. Banks were also down, reflecting worries about interest rates and currencies.

Paris suffered from the general nervousness over interest rates and currencies with financial stocks registering some sharp losses. Among them Cetelem fell FFr 108 to FFr 1,271, the biggest fall of the day.

Valeo, the car parts group which plans a FFr 690m rights issue this week, lost FFr 8 to FFr 630. Michelin, the tyre company, firmed FFr 10 to FFr 3,040.

Among car makers Peugeot lost FFr 32 to FFr 1,110, while oil group Elf Aquitaine was unchanged at FFr 339.

Madrid went against the easier trend, adding 7.32 to the Madrid SE index which closed at 199.23.

Friday's budget provided much of the fillip with banks, utilities and communications stocks all registering good gains. Only three falls were recorded at the end of the day with 96 rises and 13 unchanged.

Brussels weakened across the board in thin trading as worries about trends on other bourses and doubts over interest rates took their toll.

Petrofina lost BFr 20 to BFr 9,170, chemical stock Solvay fell BFr 130 to BFr 7,720, and holding company Société Générale de Belgique weakened BFr 25 to BFr 3,045. However, insurer AG added BFr 100 to BFr 25,500.

Zurich drifted lower as buyers remained on the sidelines. Among banks, Union Bank bearer fell SFr 25 to SFr 5,625, insurer Swiss Re lost SFr 300 to SFr 16,500 and pharmaceutical group Ciba-Geigy slipped SFr 10 to SFr 3,490.

Milan closed mixed but with a weaker bias. However, IFI, holding company of the Agnelli family, added L930 to K31,580.

Elsewhere Montedision added L60 to L3,540 and Pirelli was unchanged at L7,420.

Stockholm weakened as domestic interest rates firmed and **Oslo** eased in nervous trading.

AUSTRALIA

WORRIES over Wall Street pulled Sydney back from an early rally to close marginally easier. The All Ordinaries index shed 2.2 to 1,256.4, although there were marginal gains among industrials.

Golds and minings suffered from a falling bullion price with Bougainville and CRA down 10 cents each at A$3.05 and A$7 respectively, and Western Mining down 6 cents at A$4.34.

Among media stocks News Corp added 70 cents to A$29.70 but Herald and Weekly Times fell 20 cents to A$7. Elsewhere BHP rose 4 cents to A$8.14, Bell Group fell 6 cents to A$9.72 and Elders IXL was unchanged at A$4.75.

CANADA

THE LOWER TREND on Wall Street depressed Toronto, which was also affected by the weekend meeting of leading industrial nations.

Blue chips were active with Canadian Imperial Bank of Commerce trading C$¼ higher to C$18¾ and Canadian Marconi trading C$¾ lower to C$24½.

Other active blue chips included Canadian Pacific, off C$⅜ to C$15, Toronto Dominion Bank down C$⅜ to C$22½, Bell Canada easing C$¼ to C$37⅞ and Maclean Hunter A shares steady at C$18½.

LONDON

Fall in pound fuels fresh downturn

FEARS that interest rates will have to be raised sharply to protect sterling from its renewed slide ran through the financial markets, sending both equities and bonds spiralling downwards.

Three-month interbank rates rose from the start to end at 11¼ per cent, their highest level since April, increasing the belief that a rise in bank base rates cannot be long delayed.

The FT-SE 100 index closed down 29.4 points at 1,539.2, its low point for the day, while the FT Ordinary share index lost 25.6 to 1,212.6.

Bank shares tumbled and export-oriented stocks also suffered major losses as the pound continued to fall away against the D-Mark. Among actives which saw big losses, Hawker Siddeley was down 24p at 423p.

Stores and builders were hit by the prospect of heavier borrowing charges, with Dixons Group down 12p at 324p and Marks & Spencer off 5p at 167p among active stocks.

Losses in Government bonds ranged up to ⅝ of a point at the short end and to 2⅝ points in longer-dated issues.

HONG KONG

THE UPWARD MOMENTUM in Hong Kong continued with the Hang Seng index adding 29.94 to its fourth consecutive record high of 2,064.30.

US and UK institutional interest and good corporate news supported bullish sentiment in a day of heavy trading. One fund manager said some investors had been shifting funds out of Tokyo into Hong Kong as a hedge against possible rough waters in the Japanese market. Turnover rose to HK$867.76m from HK$582m on Friday.

Interest focused on buoyant property stocks and a few blue chips. Cheung Kong rose 30 cents to HK$26.80, Hong Kong Land added 5 cents to HK$6.75 and New World Development was up 5 cents to HK$7.95.

SOUTH AFRICA

GOLDS continued to weaken in quiet trading as the bullion price remained below $330. Southvaal went against the trend by rising R5.50 to R174.50.

Kloof edged lower by R1 to R34.50, Driefontein was R5.25 lower at R69.75, while Anglo American Gold dipped by R29 to R321.

SECTION III

FINANCIAL TIMES SURVEY

Chemicals in China

THE CHINESE chemical industry, visitors to China are essured, is in its infancy. It is a long way from supplying the nation's needs, with the result that China ie still the world's biggest buyer pf chemicals on world markets.

It is also seeking to make good the deficiency with a number of impressively modern plants.

Elsewhere in the industry, though, the problem is not so much infancy as decrepitude. China is still the land of the bullock cart and the steam locomotive, and behind the brave new imported petrochemical complexes lies e world of antique and unguarded machinery, rusting pressure vessels, and air conditioning consisting of great blocks of ice melting on the factory floor.

The gap between old and new is everywhere. At the great Liaoning province, the visitor is shown the control room, where an extremely modern Japanese computerised control system ie being installed. Outside, the local transport system goes by—a cart drawn by a team of four horses.

The reasons for the gap have much to do with history, especially the history of China's access to foreign knowhow. Inevitably, this touches on the central fact of China's recent past, the Cultural Revolution.

The earliest chemical plants in Chine appear to date from the years immediately before and during the Second World War. These were products of Japanese technology, from the time of the Japanese occupation, and in some cases the original machinery is still in use.

Then came the revolution of 1949, and a period which Chinese officials are still reluctant to talk about — the honeymoon phase with Russia, when Russia sent in a large amount of plant and technical assistance.

The honeymoon over, Chinese technicians worked on developing existing plant, largely in a vacuum. As the head of one agrochemical plant puts it: "The theory has never been a problem for us. What we lack is the knowhow."

Modern plants and joint projects are beginning to make up a huge deficiency in chemicals production. Western companies are being urged to meet the need for knowhow by transferring their technology under China's open door policy

Bargaining for progress

By Tony Jackson, Chemicals Correspondent

From 1966 onwards, the situation was much worsened by the Cultural Revolotion. As a staff pamphlet of the state export/import corporation Sinochem now puts it: "The Gang of Four slandered exports as a national betrayal, imports as the philosophy of servility to things foreign, and the introduction of foreign technology as the doctrine of trailing behind at e snail's pace."

The picture changed completely in 1979, with China's new "open door" policy. The emphasis is now strongly on technology transfer, to the extent that Western chemical companies which export chemicals to China are under considerable pressure to start manufacturing in the country, preferably through joint ventures.

The new priority given to the industry means that there is claimed to be no shortage of edequately-trained young people coming out of the universities. But again, there is a gap between the old and the new—the very able and experienced veterans at the top, and the young generation et the bottom.

By general consent in China, there is a crucial shortage of middle management. What is needed is people who can run the plants which are now being built—people who should have gained their experience in the period 1966-1976, but were hampered by the fact that being a professional manager in those days could be a risky and even dangerous business.

There is, however, no shortage of experience when it comes to bargaining for the things China needs to import, whether finished chemicals or technology.

Sinochem, the corporation which handles imports and exports of chemicals and crude oil, is China's oldest corporation—founded in 1950—and also its biggest, with turnover last year of US$11.1bn.

When it comes to bargaining with foreign suppliers, Sinochem has advantages beyond its experience. China is the world's biggest buyer of imported chemicals, and unlike other underdeveloped countries which are similarly short of chemical requirements, China is not e heavily indebted nation, and has the reputation of being a reliable payer.

The resulting bargaining power is increased by Sinochem's habit of concentrating the bulk of its purchasing in the twice-annual trade fairs at Guangzhou (Canton). As a result, Western suppliers say ruefully, China gets the cheapest chemicals in the world—according to one big US company, et prices up to 20 per cent below the world market rate.

It is official policy, naturally enough, to reduce dependence on imports by raising domestic production. The policy is given added urgency at present by China's acute shortage of foreign exchange, itself mostly due to the ill-judged stimulus of the economy in 1984 and 1985 which led to a surge of imports of consumer goods.

The policy had a donble effect. It reduced the amount of foreign exchange available for the import of chemicals—Western suppliers all report reduced business this year—and for the import of technology. It also increased consumers' demand for electricity, for imported goods such as TV sets and hi-fi.

This has exacerbated e recurring problem for the Chinese chemical industry—shortage of power, which in the case of smaller and older plants, at least, leads to regular shutdowns and consequent inefficiency.

There is an evident commitment, though, to the expansion of the industry. In petrochemicals there are dramatic instances such as the Liaohua complex, where it is planned—starting from 1989—to double the volume of output (this is dealt with elsewhere in the survey).

At the Ministry of Chemical Industry, which has responsibility for chemical prodoction excluding petrochemicals, planners point to three areas of priority under the seventh five-year plan starting this year.

First, production of compound fertiliser is aimed to be increased, from a present total of 36 per cent of all fertiliser to 44 per cent by 1990. This will involve the building of several large-scale fertiliser complexes and the revamping of a number of existing medium-to-large ones.

Second, it is planned to increase output of soda ash and caustic soda. Existing soda ash capacity of 2m tonnes is to be revamped, and three new plants of 600,000 tonnes apiece are to be built. The net planned capacity by 1990 of 3.5m tonnes represents an increase of 74 per cent.

With caustic soda, the problem of electrical power becomes acute, since the production process is electrolysis (ICI in the UK reckons to use 1 per cent of the national grid at its caustic soda/chlorine plant at Runcorn).

Plans are to increase output to 2.6m tonnes—up 10.6 per cent largely by improving existing plant through the introduction of membrane technology, and also to find ways of using waste chlorine gas, particularly by developing production of PVC.

Third, there are less specific plans to expand production of fine chemicals, such as pesticides, dyestuffs, coatings, adhesives, catalysts and surfactants.

Of the NCCC's turnover last year of Y49.8bn (ebout £9bn), 19 per cent consisted of fine chemicals. The plan for 1990 is to increase that to 23 per cent of e total which is itself planned to grow by 43 per cent, to Y70bn.

The details of the Five Year Plan are, given the past history of such plans, less important than its general intentions. It is widely agreed in China that the present level of training puts the chemical industry in e position to move forward quickly if, and only if, it has eccess to the next level of expertise from overseas.

The formidable bargaining power shown by Chinese officials in importing chemicals is also displayed in importing technology. One German company describes the process: "For each project, they ask for big presentation seminars from everyone. Then they get down to the last three in detail. Then they put those three in three rooms in a hotel, and go round until they've got a deal."

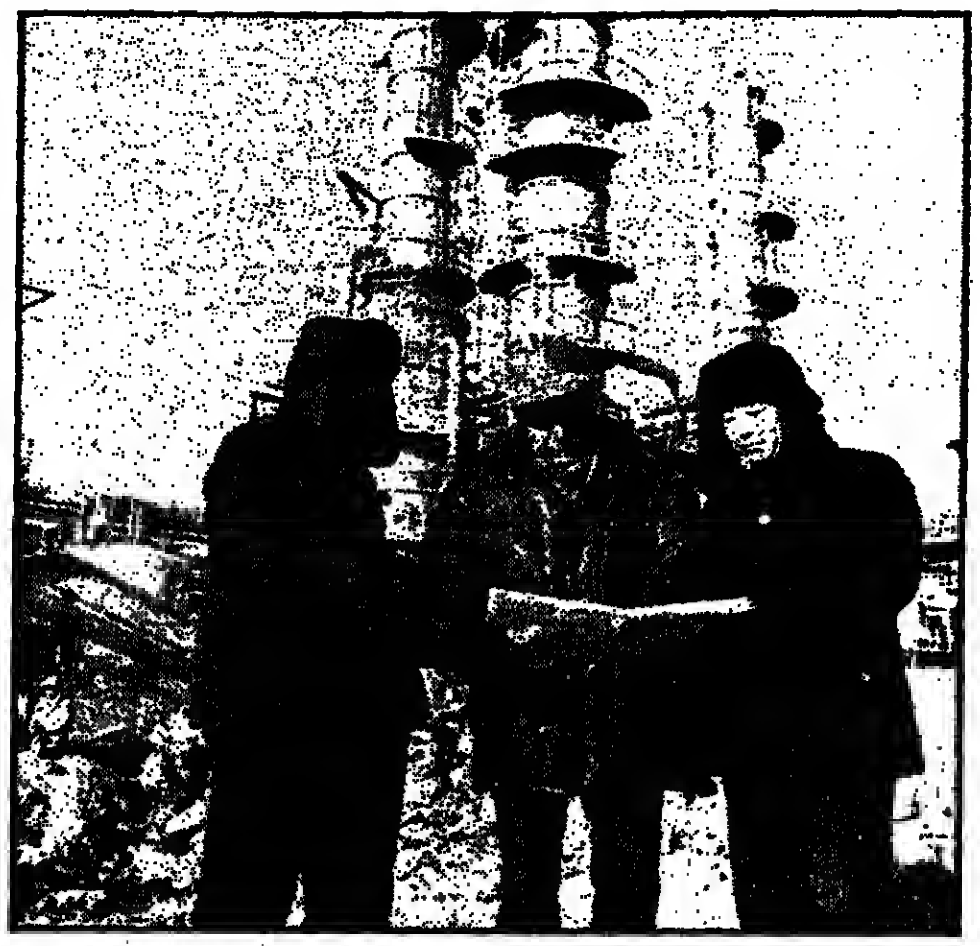
That process relates to licensing agreements. However, the acute shortage of foreign exchange, even if generally expected to be temporary, has led to particular stress being laid on joint ventures, which under present rules are expected to be self-sufficient in foreign exchange terms.

So far, Chinese negotiations on joint ventures have proved so tough that virtually no foreign chemical companies have taken the bait. However, all insist that they are still actively interested.

The reasons are not hard to deduce. The potential of the Chinese market is vast; by some estimetes, for instance, consumption of plastics per head in Chine is one-tenth of that in Europe.

But the Chinese euthorities are quite sophisticated enough to realise how attractive their market is to the capitalist world, and to aim to make the most of it. They also have a strong belief — frequently expressed, and patently genuine — in long-term relationships.

For companies from Europe, the US and Jepan, the time for bargaining is now. They should not expect an easy time of it.



Commissioning a 2-ethyl hexanol plant for making plasticiser, used in the production of PVC, in the petrochemical complex at Daqing, north-east China. The £41m plant, the sole British project, was built by Davy McKee

CONTENTS

Official bodies	2
Joint ventures	2
Pharmaceuticals	3
Squibb joint venture	3
Infrastructure	4
Paints/dyestuffs	4
Quality control	4
Foreign exchange	5
Liaohua complex	5
Daqing oil venture	5
Agriculture	6
Business banquets	6

Chemicals in China 2

Official bodies

Firm hand at national and local level

THE CHEMICAL industry in China is controlled by a number of bureaucratic bodies whose functions overlap and often compete. They run not only production but also external trade, and operate—in a way sometimes confusing to the outsider—at both the national and local level.

The three main bodies are the Ministry of Chemical Industry, Sinopec and Sinochem. (The pharmaceutical industry, run by the State Pharmaceutical Bureau, is dealt with in a separate article on page 3).

The Ministry of Chemical Industry runs China's chemical factories, with two major exceptions — petrochemicals and pharmaceuticals. It is also responsible for the import and export of chemical equipment and technology, through its subsidiary the China National Chemical Construction Corporation.

The Ministry is mostly involved with bulk inorganic chemicals of the type which form the 19th century heartland of chemical groups in the developed world. It also handles mining of chemical ores such as phosphate or sulphur. Sales from its plants last year totalled Y49.8bn (about £9bn), up 7 per cent from the year before.

Statistics on output are never easy to come by in China. A flavour of the Ministry's business can be gained from a list of the nine products which outperformed targets in the Five Year Plan just ended, together with last year's volumes:

Ammonia	17.66m tonnes
Chemical fertiliser (all types)	13.22m tonnes
Phosphate ore	6.97m tonnes
Sulphur iron ore	6.82m tonnes
Sulphuric acid	6.72m tonnes
Caustic soda	2.35m tonnes
Soda ash	2.01m tonnes
Pesticides	204,000 tonnes
Rubber tyres (sets, ie 1 tyre and 1 tube)	16.58m

The only true speciality products there — in the sense of being sold on effect rather than price, and having high edded value — are pesticides, where production is seriously below market demand.

The inclusion of tyres looks odd, but is typical of the Chinese system of categorisation. My recent tour of products sold by Sinochem included a trip round China's biggest condom factory.

By e more understandable anomaly, the Ministry handles one bulk plastic, PVC. Present production of PVC is ebout 500,000 tonnes, and a further 200,000-tonne plant is under construction. Basically, the Ministry says, China is self-sufficient in PVC.

Sinopec was formed in 1983, mostly from parts of the Ministry of Chemical Industry and the Ministry of Petroleum. It is evidently a rising force in the industry. Although it works along with the Ministry of Petroleum it is not subject to it, ranking in effect at ministry level under the direct control of the State Council.

The corporation runs the huge new petrochemical plants which are often referred to by foreign observers as the "showcases" of the industry.

Complexes such as Yanshan, Liaohua and the Daqing ethylene plant are the product of foreign expertise, but like the great new petrochemical complexes in Saudi Arabia, they show every sign of being neatly and efficiently run by domestic technicians.

The plants are much more advanced than those of the Chinese industry as a whole, but chemical corporations in the West have their out of date plants too, and are no more keen on showing them.

In theory, export and import of chemicals is the business of Sinochem. However, the big Sinopec complexes have the right to do their own foreign trading, to have their own sales forces abroad, and to retain their own foreign exchange. This is normally done through local joint ventures in which Sinochem will have a minority stake.

Sinochem is the oldest and biggest of the State corporetions (as opposed to ministries) in China. It was set up in 1950, and last year handled exports of US$7.49bn ($6.95bn of that being petroleum) and imports of $3.64bn.

It is now junior in status to the other two, being under the control of the Ministry for Foreign Economic Relations and Trade.

The corporation originally handled China's foreign trade in its entirety. As that trade has grown so parts have been hived off, the latest being the import and export of pharmaceuticals, handed over in 1984 to the newly set up China Medicine Products Import and Export Corporation.

This last is under the control of the State Pharmaceutical Bureau, which like Sinopec reports directly to the State Council.

Sinochem has exclusive responsibility for exporting China's crude oil, which in 1985 accounted for around a fifth of China's total foreign trade of $50bn. Crude sales are all handled by the head office in Beijing. Other deals can be handled either by head office or by the regional branches—which brings in the question of decentralisation.

Sinochem has branches in every region of China except Tibet. The official policy of giving more autonomy to the regions means that the branches have more power to make their own import purchases than before—an important consideration for a foreign businessman looking for the right person to sell to.

But the process, by some accounts, is occasionally reversed. One American specialist says: "On the import side Sinochem can obtain information on what the provinces are doing, so when the campaign is on to conserve foreign exchange they can point to examples of the provinces buying at 30 per cent or 40 per cent above what can be obtained centrally.

"The provincials can be portrayed as easily duped by wily capitalists, and even though there may be a case for differentials at times, a lot of provincial people get carpeted in Beijing."

On a longer view, Sinochem is thinking hard about what kind of role it should play in the industry. Chen Haoran, vice president, says: "We are making every effort to extend our business.

"Our past image is one of import and export only, and for e while that was all we did. But with China opening more and more to the outside world, and more impetus coming from the domestic economy, strategically speaking we at Sinochem don't think that's enough."

The range of things he has in mind is very wide. For instance, a shift from a production-led to a marketing-led industry.

"In the past, we just asked our industries what they could offer. If they said soda ash, for instance, we' dfix an export amount with the planning commission and negotiate a trade with foreign customers. Now w ewill study the needs of the market, including specifications, qualities, packaging and so on, and pass the information back.

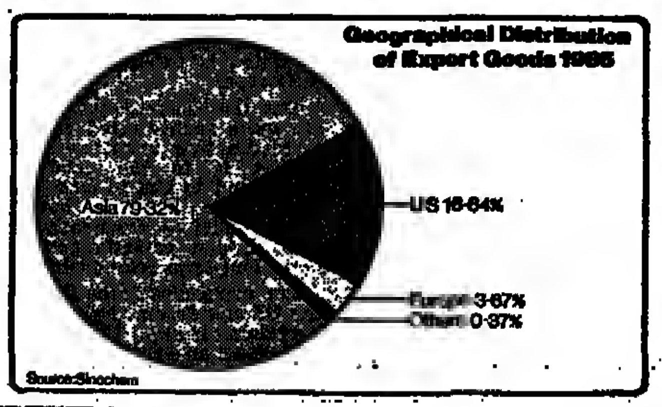
"We can work jointly with our companies to produce the right products, and that may include us investing in Chinese indsutry."

The list goes on: organising publicity and technical presentations for Chinese companies, or for foreign companies in China; setting up joint ventures; compensation deals. "Maybe in future we will set up oil refineries in other being marketed either in countries, with the products China or in third countries.

"We will do not just horizontal trade, but three-dimensional—that is, Sinochem's UK office could do business with Sinochem in New York or Tokyo.

"And we have done some barter trade, and are studying getting involved in futures markets—for oil, fertiliser, rubber—not just to make money, but to get up to date information on the state of the market. In on esentence, our strategy is—we will do more."

Tony Jackson



Sinochem's exports by category

(US$100m)

	1983	1984	1985
Petroleum	43.55	57.08	69.49
Chemical	4.04	2.61	3.57
among which:			
Organic	1.97	1.64	1.91
Plastics	0.30	0.15	0.14
Inorganic	1.77	1.82	1.52
Dyestuff and pigments	1.12	1.19	1.04
Rubber products	0.58	0.49	0.49
Fertilisers and agrochemicals	0.09	0.15	0.20
Others	0.46	0.16	0.07
Total	53.00*	62.59	74.86

*Includes pharmaceuticals

Source: Sinochem

Sinochem's petroleum and chemical trade

(US$100m)

	Export	Compared with previous year +/− %	Import	Compared with previous year +/− %
1980	51.64	+75.60	20.14	+45.80
1981	55.59	+ 7.65	25.61	−15.10
1982	57.90	+ 4.10	28.32	+10.58
1983	53.00	− 8.80	31.01	+ 8.40
1984	62.59	+18.09	41.00	+32.55
1985	74.86	+19.60	36.40	−11.22

Joint ventures

High priority in official plans

JOINT VENTURES with foreign partners have a very high priority in official plans for China's chemical industry. On the one hand, the industry badly needs further infusions of foreign knowhow. On the other, foreign exchange is in short supply, and joint ventures are seen as a way of shifting the burden on to the foreign partner.

Partly, this is because the partner is expected to import the plant and equipment for the venture. Also—and this is a particular bone of contention with foreign companies—the ventures are supposed to be in equilibrium in foreign exchange terms.

This means that anything imported by the venture, whether raw materials or equipment, must be paid for by foreign exchange generated by the venture itself. Perhaps more important, under existing rules the foreign partner can only repatriate his profits in foreign currency earned by the venture (exporting domestic Chinese currency being against the law). This in turn means that the venture has to be export-oriented. The snag here is pointed out by one US chemical company:

"To the extent that you are exporting your production to earn foreign exchange, you are using China as a manufacturing base. But most multi-nationals don't look to China as a manufacturing base—they look to it as a market."

Joint ventures are fairly common in service industries such as hotels and restaurants, which solve the foreign exchange problem by catering largely for foreign visitors anyway.

But in the field of chemicals proper, the total so far is just two—a pharmaceuticals joint venture at Shanghai with the US company Squibb (described in detail in a separate article). and a trading joint venture with the West German trader Karl O. Helm, based not in China but in Hamburg and geared to promoting Chinese exports to Europe.

A US company which is looking at the possibility of a joint venture is critical of the official Chinese attitude. "China hasn't learned from developing countries like Taiwan and Korea that you have to set up conditions which actually attract foreign investors.

"They have to think the thing through—whether they should spend their money on importing finished products, or on helping foreign companies to set up in China—in the process of which they can learn the technology."

On top of that comes the problem of how joint ventures are to be taxed. The same US company says: "The tax system is very difficult to comprehend. We don't even know if there's e unified policy. or different purely local ones.

"We've got people working on it, but we don't understand the system yet, and we don't believe other companies do either."

Sinochem, the trading corporation which has particular responsibility for arranging joint ventures in chemicals, is aware of the problem. Chen Haoran, the corporation's vice president, says: "Our problem is how to make it attractive to foreigners. Our Government always warns our companies that they shouldn't be afraid of foreign companies making money here — because if not, why would they be here at all?"

Mr Chen also insists that it is government policy that joint ventures can be oriented either towards export markets or the Chinese market.

"If products can be marketed overseas, so much the better," he says. "But if we at Sinochem want to buy cars from the Volkswagen joint venture in Shanghai — as we have done —we will pay foreign exchange."

It is not clear how far this view prevails elsewhere. The Liaohua petrochemical complex is, as described elsewhere in the survey, on the point of looking for foreign participation in its expansion plans.

Yang Wen-Tong, deputy general manager, says: "We would obvionsly look for investors who could supply technology, people and equipment. But if they are looking to dominate the Chinese market, our problem is to generate the foreign eschange to enable them to take their profits."

This brings the argument full circle. It also sounds a note of protectionism which is a faint but persistent theme in discussions with the Chinese chemical industry. Concessions, plainly, will have to be made.

Foreign companies will have to concede a measure of technology transfer and export marketing effort in return for some access to Chinese markets. China, correspondingly, will have to concede market access to get the technology.

Even then, there will be cultural problems of the sort illustrated by the Squibb joint venture in Shanghai. One German chemical group which has yet to take the plunge says: "We're not in a great hurry to get a joint venture in China for the sake of it, and certainly not et any price.

"Very few manufacturing joint ventures are successful at the moment—you can't travel 20 or 30 years in the space of two, which is what a lot of people seem to expect."

However, very few companies —with the possible exception of the Japanese—are prepared to turn their backs on the opportunity of joint ventures.

But it is necessary to overcome one central plank of Chinese official policy—to be observed in such humdrum detail as the price of a railway ticket—which says simply: "Foreigners pay twice." In this case, foreigners still seem to prefer to do other things with their money. There is a lot of horse-trading yet to be done

Tony Jackson

Chemicals in China 3

Shanghai–Squibb joint venture

Model project falters amid heavy debts

IN A spanking new concrete-and-cube pharmaceutical factory in Shanghai, paint is peeling off the walls. "Chinese finish," sighs Walter Prechel, technical advisor to China's model pharmaceutical joint venture, the Sino American Shanghai Squibb Pharmaceuticals.

SASS is one answer to China's need for new technology to upgrade a pharmaceutical industry nearly 30 years out of date. The joint venture between Squibb and the Shanghai Pharmaceutical Industrial Corporation was to be a model of how to transfer advanced technology with profit for both sides.

After two years of teething troubles SASS did indeed ship its first consignment of finished pharmaceuticals for sale early this year. And even fussy, German-born Mr Prechel is satisfied with SASS product quality.

But the 50-50 joint venture between Squibb and the SPIC remains deeply mired in crippling debt. Despite strict quality control at the factory, Squibb faces an uphill battle to obtain regulatory approval for SASS products abroad. So product sales remain discouragingly low.

Negotiations began with immense goodwill in 1978. Four years later both sides signed an agreement to build a modern formulation and packaging factory for high grade pharmaceuticals outside Shanghai.

Each partner put up US$1m, with an additional US$7m provided by a consortium of banks. Product sales were to cover operating expenses and generate profits.

But the American partners now claim the venture has faltered on bureaucratic infighting, technological shortcomings, and a shortage of foreign exchange needed to import vital supplies.

More serious still, SASS's American president, John McCoy, claims that the current squeeze on the Chinese economy has encouraged defaulting on contracts. This has cost Squibb millions of extra dollars, and tested the foreigners' faith in the Chinese reputation for honouring such agreements.

The Chinese, for their part, claim that Squibb is stalling over obtaining clearance for Chinese products abroad, while using their entree into China to market Squibb products. They say that the bureaucratic Squibb management does not understand the Chinese situation, and is not prepared to adapt Squibb procedures to theirs. "They believe that we should take more account of their undoubted expertise," Mr Prechel says.

The factory, designed by Squibb engineers and the Shanghai Pharmaceutical Design Institute, handles 16 different product lines. The factory packages antibiotics, cardiovascular drugs of the most modern kind, multivitamins, antibiotic and antifungal creams and ointments, as well as vaginal tablets and suppositories—putting them into sterile glass vials, aluminium tubes and PVC pouches.

"The plant is reasonably well-designed and acceptably finished," Mr Prechel says. He believes it is only "a matter of time" before their products win coveted approvals from the US and Canadian Food and Drug Administrations.

But he admits that the 18 months between the beginning of construction in late 1983, and the launching of product trials in August 1985, fully stretched his patience, as he struggled not only to get a modern factory up and running but also to instil new work ethics away from the idea of the "iron rice bowl" and standards of quality control.

"The Chinese had to learn how quality is built into production from the start," Mr Prechel says, not merely a good quality control report.

From the start, a lack of co-ordination between the contractors and their work units threatened to throw the project off budget and off time. For example, a plastered and painted wall would be destroyed by the pipe fitters who should have been scheduled ahead of the plasterers. The wall would then be redone, at an obvious cost of time and money.

Plant construction remained within budget only because the original planning had, in fact, allowed for a large amount of wasted time and money to take care of this.

The concept of maintenance is "virtually non-existent" in the face of other pressing needs, Mr Prechel says. "We had to import thousands of dollars worth of cleaning equipment such as scrubbers, industrial vacuums, even special brooms and mops suitable for pharmaceutical factories" which could not be bought in China.

Capital costs in foreign exchange sharply escalated when SASS was forced to purchase two thirds of its supplies, including such ordinary items as rubber stoppers, PVC for suppositories, the antibiotic mycostatin, and anhydrous lactose, from outside China. Most of these were originally to be supplied by the Chinese.

In a report on the venture presented to a symposium on Chinese-Foreign Joint Ventures, in Beijing, in June SASS's president John McCoy said: "Truly advanced technology often puts the joint venture beyond the capability of the Chinese support industries to supply the quality raw materials needed to produce with high technology machinery."

He may have had in mind SASS's problems with manufacturing aluminium ointment tubes. The factory installed a US$1m piece of American machinery not suited to the much thinner Chinese aluminium and poorer quality plates for printing labels. After months of trial and error in efforts to make everything work SASS was forced to import aluminium tubes, at an extra cost in foreign exchange.

Thus SASS fell more in debt as the need for working capital had not been foreseen in the original feasibility study. Then product sales of about US$2m fell well short of the projected target of US$8-9m for the first year, partly Mr Prechel thinks, because of a continued reluctance to "buy Chinese."

With insolvency looming, top officials in Beijing and Squibb headquarters put together a rescue plan. Squibb extended credit on purchases of raw materials from Squibb subsidiaries. This, together with interest savings on bank loans, amounted to a US$1m boost.

The Chinese government allowed the company to make special purchases of foreign exchange for Renminbi in order to import additional raw materials and packaging materials.

Shanghai authorities also gave SASS permission to export certain bulk raw materials such as tetracyclin to earn foreign exchange. But the export licensing body Sinochem consistently refuses to issue the necessary documents, claiming Squibb will usurp its international markets and undercut prices.

On top of this Chinese efforts to cool the economy have drastically reduced the amounts of Renminbi available to distributors, customers and even joint-venture partners who cannot obtain loans to cover normal operating expenses.

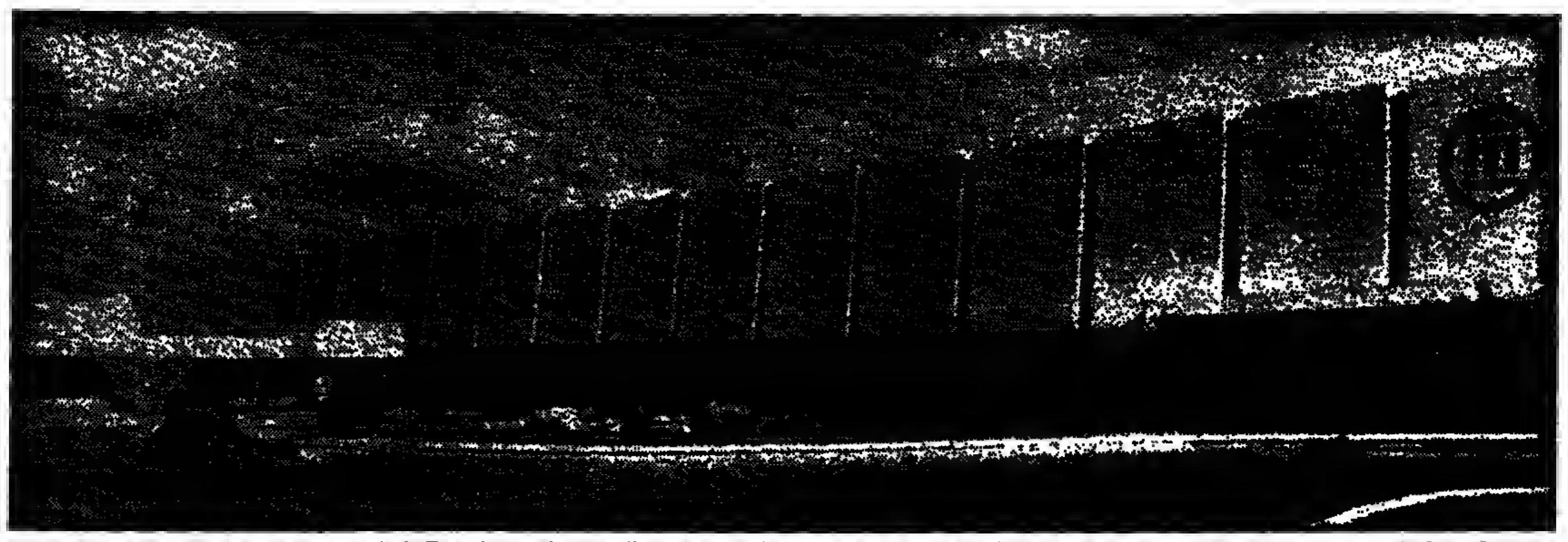
As a consequence, Mr McCoy says, "we now have two outstanding contracts which total close to 1.5m yuan which are ignored by the contracting agency."

Even the sales office of McCoy's partner, Shanghai Pharmaceutical Industrial Corporation, reneged on a contractual obligation to purchase and distribute all SASS's domestic product for the first year, he told the symposium audience.

This left SASS holding 1.3m yuan worth of unsold finished pharmaceuticals and forced SASS to borrow more money from the bank.

He went on: "No one expects China to guarantee markets, profits or competitive advantages." He thinks, though, that there is an immediate need for a high-level authority which can see that existing laws, regulations, and agreements are honoured fairly and consistently in all parts of China.

Stephanie Yanchinski



The Squibb factory in Shanghai. Despite strict quality control Squibb faces an uphill battle to obtain regulatory approval abroad

Pharmaceuticals

Very high level of expertise

THE WEST generally acknowledges China's superiority in the art of herbal medicine. "China is the best in the world at exploiting medicines from plants," says Thomas Shing, whose parent company Upjohn Company has just signed a research agreement with the Shanghai Institute of Materia Medica for the screening and development of compounds derived from ancient Chinese herbal medicines.

But China is also one of the world's largest producers of unfinished antibiotics, vitamins and sulphonamide drugs. These low-priced, out-of-patent products find a ready market in more than 80 countries and, with textiles, rate second only to petrochemicals in export earnings for China.

The newly-formed China National Medicine and Health Products Import and Export Corporation (MEHECOS) will oversee sales abroad, formerly handled by Sinochem.

These medicinals, along with more intriguing items such as Ginseng Reconstructor Pills and rabbit brain powder, recently exceeded US$280m a year, a comfortable margin over the figure for imported pharmaceuticals of about US$80m.

According to the People's Republic of China Yearbook, output value increased 13 per cent from 10.382bn yuan in 1983 to 11.72bn yuan in 1984. The sizeable number of more than 3,800 Chinese products from 42 factories find their way to South America, the Eastern Bloc countries, South-east Asia, and Africa, mainly through trading houses in Hamburg and Hong Kong.

However, major companies such as BASF and Bayer also buy pharmaceuticals raw materials from China and BASF even claims that Chinese technology for making certain vitamins such as tocopherol, vitamin E, is sought after in the West.

The Chinese list of exports embraces other, more specialised drugs such as 60 kinds of anti-cancer treatments, a host of analgesics, cardiovascular drugs, and steriod hormones, tranquillisers and sedatives.

Indeed, one manager with a major British drug house says: "They are up to the latest benchmark in the laboratory. They can manufacture anything we can in the West. They have even copied Tagamet," the popular anti-ulcer treatment. "Their problems lie in the scaling up from laboratory to commercial process."

Chinese scientists are experimenting with advanced technologies such as liposomes for targeting cancer drugs in the body and genetic engineering for manufacturing a vaccine against the liver disease hepatitis B.

However, in conventional manufacture, quality control tends to vary in China's many old factories. As a result products are "borderline" with regard to international standards, according to Thomas Ching, managing director of Upjohn's Hong Kong subsidiary, forcing them to sell to developing countries. Only six Chinese products have received FDA approval.

The Chinese reportedly aim to change this, and become a world power in pharmaceutical manufacture within five years, by acquiring new technology to update their factories. The Chinese also hope to speed up the lengthy process of clearing regulatory hurdles in the US with joint ventures like the Squibb partnership.

The Americans join a growing list of foreign multinationals anxious to gain a foothold in the growing Chinese market for more sophisticated drugs estimated to be around $300m in five years' time.

The Japanese company Otsuka is already well established near Tianjin, its factory making intravenous fluids for hospital clinics, as is Janssen, a Belgian manufacturer of antihelminthic preparations for treating worms. British giant Glaxo and Astra, the Swedish drug house, are discussing joint ventures.

China traditionally imports sophisticated medicines needed to treat basic diseases, such as third generation antibiotics, the new beta blockers for heart disease, and certain anti-cancer preparations.

But Alan Barcock, managing director of Glaxo Orient (Pte), and mastermind of Glaxo's US$5-10m joint venture with the Chinese, says that "as medicine becomes more sophisticated in China certain other health problems will become a matter of personal and national priority."

"For instance, he sees a growing market for Zantac, Glaxo's major anti-ulcer drug."

However, hidden pitfalls await those doing business in China for the first time. While sales representatives can travel about the country, talking directly to doctors in government agencies and hospital clinics which purchase imported drugs, it is often difficult to find out who makes the buying decisions, Mr Barcock says. This means a lot of extra work.

Then, too, China's patent laws offer little protection to foreigners investing in advanced technology in China. The laws cover processes, not products.

"With slight changes in production processes any modern patent can be taken over," says Mr John McCoy, president of China's joint venture with Squibb.

"Already one of our foremost cardiovascular medicines is being produced by a Chinese plant and sold well below a price we must charge to cover the costs of our new plant and high-technology equipment."

Stephanie Yanchinski

Quality control

Mammoth task to modernise

THE VISITOR turns e corner in the circa 1927 Warrior Tyre factory and, wafted on by the heavy smell of hot rubber, comes npon a surprise: a computer standing proudly in a dust-free, air-conditioned oasis of air.

The contrast between the little computer room and the oily workshop outside symbolises the mammoth struggle in China to modernise older industries and find new export markets through better quality and more advanced technology.

Pharmaceuticals, bulk and fine chemicals, fertilisers, rubber production and dyestuffs all have a long history in China, with factories deting back to the early decades of this century. Despite crowded and dirty facilities, outdated machinery end processes, export sales from some of these factories are impressive.

For instance, tha old-fashioned looking Warrior factory, located in the heart of congested Shanghal, won the US Department of Trade and EEC certification as well as local gold ewards for quality. Last year, it manufactured 1m sets of tyres and exported 40 per cent, earning a respectable US$8 m

Despite gluts in foreign markets, the demand is growing for basic chemicals. The directors of two pre-war factories in Shanghai say they export between 20 and 33 per cent of their dyestuffs and cannot meet foreign demand for certain products, such as dye intermediates.

Some multi-nationals such as ICI huy these intermediates mostly for onward sale to Africa and Latin America. But domestic demand in the west is growing as the dyestuffs industry struggles under increased costs from stringent pollution control.

Altogether, according to Sinechem figures, sales from factories and refineries in Shanghai alone have jumped from US$89.23m in 1975 to US$326.74m in 1985, of which chemicals, dyestuffs, finished products, pharmaceutical and health products eccount for 57.5 per cent.

But Shanghai highlights the problems facing the older industrial centres in cities such as Beijing and Nanjing. This sprawling city on the banks of the Huangpo river is still a major centre of China's chemical industry, producing 29 per cent of the country's chemical fibres, and 15 per cent of its plastics.

But it has stagnated in recent years, compared to neighbouring Jainsu province and other newer economic zones. "One of the most decisive factors weakening Shanghai in comparison to other cities and provinces." comments Dr Klaus Grimm, a foreign expert from Friedrich Ebert Stiftung FRG, "is that about half of the city's industrial equipment pre-dates 1950 with a further 33 per cent installed before 1960."

Dr Grimm estimates that Shanghai has spent more than US$2bn a year in recent years to renovate industries and build of new manufacturing facilities.

"But the task of large-scale renovation of existing, well-established industry is in most cases, more difficult than building new industry."

This is true elsewhere. At the Nanjing Chemical Industry Company, the facility built in 1934 for manufacturing inorganic fertilisers stands shoulder to shoulder with a newly-opened caprolactam unit which vice-director Wei Zheng claims "matches the best in Japan."

Meanwhile, equipment for moderning the fertiliser process using energy-saving membrane processing technology common in Europe for many years waits to be unpacked.

Nevertheless, the Chinese make do with what they have, and work hard to close the gap between the quality of Chinese products and those of the West. At the heart of this push is e two-pronged strategy of transferring new technology and making quality control mnch more rigorous.

"It is a problem for the Chinese to decide whether to acquire technology or import the product," says John T. Kamm, vice-president and general manager of Diamond Shamrock. "After all the mark-ups and taxes, if the local demand is not large enough the Chinese are forced to continue to import."

China's chemicals

However, there is an incentive ne says, for prodnction units to acquire technology and copy because a recent government programme ensures that they receive a proportion of the foreign exchange savings.

Older Chinese factories contain an eclectic mix of technologies acquired from different countries according to the political wind of the day. Immediately after the Second World War the country copied what it could from details of German chemical engineering technology published in the famous Bios report.

During the early 1960s the Chinese relied on their Russian "friends" before that relationship went sour.

In the 1970s the Chinese bought equipment and licensed processes mainly from West Germany, Jepan and the US, and since the opening up China has made the most of the freedom to shop around for the best quality and price.

So, for instance, one of China's newest factories built, at a cost of Rmb 270m for manufacturing fine chemicals for paper, leather, and textiles coatings, acrylic paints and resins, was stocked with Mitsubishi computers. A Japanese catalyst company provided the process, but "the knowhow for finishing products came from Union Carbide in the US," says Shen Guo-qiu, vice-manager and engineer.

The team spirit to improve productivity too often remains low.

The government has implemented policies for motivating epathetic factories though a series of much-prized gold and silver awards for such things as productivity, quality control and energy savings.

However, the best intentions are often defeated by factors beyond the control of the factory manager. Li Ming-Hua, the meticulous vice-director of the Double Coin rubber tyre factory, believes in technical innovation and the best in quality control to move his automobile and truck tyres into expanding markets in South America or Eastern Europe.

His factory boasts a computer which controls the addition of carbon black into the natural and synthetic rubber mix which is crucial to the strength of the tyre. At the end of the process his tyres go through a sophisticated quality control unit which includes X-ray machine endurance tests and uniformity measurements, mostly supplied by American companies such as Monsanto to match American standards.

But other problems intervene. He says: "We import all of the natural rubber we use and try to get the best quality. But sometimes supply is tight, so we buy what we can."

The crucial component carbon black is domestically supplied but the quality, he admits, is not always the same.

"Most of the nylon cord we use from China is very good, but the imported material from South Korea, Taiwan, and Japan fluctuates. Then occasionally our butadiene rubber shipments from a United States company arrive badly packed and unusable."

Stephanie Yanchinski

Paints/dyestuffs

Finishes to match Western goods

CHINA'S NEWEST factory is colouring China in shades of Avocado and magnolia. In 1985 the Beijing Eastern Chemical Works launched production of a sophisticated range of fine chemicals for finishing the walls and wallpapers, the refrigerators and washing machines that the Chinese are avid to buy.

The factory produces latex and acrylic paints in a wide assortment of colours and glosses, fine coatings for wallpapers, textiles and leathers. The works also manufactures chemical intermediates for end products such as light fixtures from acrylic resins.

These products match Western goods for look and durability, the factory's vice-manager Shan Guo-Qin proudly claims. He says that his acrylic paints last three years without repainting. The spray paints, destined for wide use on seaside buildings, offices and apartment blocks, are "very good quality."

Last year the factory with its 58,000-ton output earned Rmb 166m "profit," including revenues from acrylic chemicals, intermediates sold to Japan, the United States, Hong Kong and Britain. Meanwhile, at home, "production is not meeting demand," he says.

China's oldest chemical factories are also turning to manufacturing value added goods which are giving such gloss to Chinese life. The Beijing No. 2 Chemical Works, built in 1958 and designed to make caustic soda and calcium carbide, is developing new lines in plastic processing with the aid of American and Japanese technology.

The factory now manufactures 40,000 tons of PVC plates, sheets and film for food packaging, plastic furniture, windows, roofing and doors, products which are new to China. By 1989 Li Lian, the works' vice-director, expects to have two new 200,000-ton output factories, three new lines of Japanese technology and export orders abroad.

He is also discussing a joint venture with the American company Dow Corning to make silicon products such as building adhesive for export. A partner for manufacturing dry cleaning fluid, though, has yet to materialise.

Although demand is high in China among the fashion conscious for adequate dry cleaning services, "the planned capacity was still too small to make the investment worth it," the foreign partner told Lian.

The slightly creaking dyestuffs industry is also looking for joint venture money to revitalise production. For instance, the Shanghai Dyestuffs Chemical Plant No. 8 supplies 70 per cent of China's needs in reactive dyes.

This market is rapidly growing beyond the factory's production capacity as China's women forsake synthetic terylene and orlon for fancier cottons and linen.

But Zhao Qiyuan, the factory's head, also sees a mission in helping the burgeoning textile industry sell abroad. "Before," he says, "China would sell its dyes to Hong Kong, where the clothes would be manufactured. Now our textile industry is also developed and asking for reactive dyes.

"If I could, I would put all the money we earned back into the factory to help sell Chinese clothes all over the world."

The factory already does a good trade in dye intermediates, exporting about one third of its production and the world shortage means an opportunity to sell more. The director says he recently approached Bayer, Hoechst, ICI and Sandoz about joint collaboration, but with no illusions of how difficult it might be to attract partners.

There have been few joint ventures in the chemical industry Qiyuan thinks, because such investment needs high technology. "The industrial base in China was not strong enough to attract such partnerships," he admits.

However, because of environmental restrictions "foreign firms now find it cheaper to import from China than build new facilities at home.

"The quality of our products is accepted," Qiyuan says. "We now need our foreign friends to help us introduce new processes."

Stephanie Yanchinski

Infrastructure

Extra costs threaten profitability

FEW NEW factories have to build into their feasibility study an extra US$10m to pay for a river-spanning bridge. Or set aside US$25m out of profits for a deep-ater wharf to handle 180 container ships a year. Or find the money to house 80,000 workers and families.

But this is precisely what the Shanghai Petrochemical Complex and its three partners China Technology Import Export Corporation, Sinochem Beijing, and Sinochem Shanghai branch, faced, as the complex grew from cutting the first sod, in 1972, to occupying the sprawling 1,500-acre site on land reclaimed from salt marshes along Hangzhou Bay.

The Chinese Government paid for the modern foreign-built bridge, soon after the factory was constructed in 1972, but by the early 1980s many more ships jammed the vital Shanghai port, SPC's lifeline for raw materials and product deliveries. This put at risk the factory's hard-won reputation for delivering its quality products on time.

So SPC responded with the competitive spirit washing over Chinese industry at the time and built its own railway head and deep-water wharf out of its profits.

In other countries such facilities are paid for by central government. This extra burden, added to rising wages, threatens to make Chinese industry uncompetitive, compared with Taiwan, South Korea or Malaysia, and could be a consideration to foreign investors in joint ventures.

SPC was in the vanguard of the new industries located away from population centres. Setting up what eventually became China's largest synthetic textile factory 75 kilometres from pollution-laden Shanghai seemed a good idea in 1972.

Shanghai, with a Huangpo River made muggy by the overload of 12m people and a port already jammed with ships, obviously could not handle a facility producing hundreds of thousands of tonnes of synthetic fibres, chemicals and plastics in an area the size of Hong Kong.

So the factory was located at Hangzhou Bay, where Dr Sun Yatsen stood and planned the biggest harbour in the East. The satellite city, however, is a tiring three-hour drive from Shanghai, along a narrow two-lane highway.

SPC relies on young and highly-trained workers who increasingly demand the good life and have the money to afford it. So the company offers especially good wages, incentives and bonuses, to attract young people. Eighty per cent of the 54,000 workers are under 30 years of age.

The company also provides hospital facilities, and education from kindergarten to college level, libraries, a cultural palace, swimming pool, stadium.

But the company's "remote" location still makes it hard to attract the necessary calibre of staff away from Shanghai.

Housing in China is assigned either by the factory unit or government agency. Rents are nominal, a few Remimbi a month, and the government collects no property taxes, which could help fund new developments. Instead, housing is regarded largely as welfare for the work unit to provide.

Last year SPC posted a healthy Rmb 2.7bn sales to the domestic market and demand for its petrochemicals is up.

Meanwhile, SPC embarks on the next phase of expansion which will see the factory take on between 10,000 and 20,000 extra staff. This time, however, a bank loan and bond issues will help pay the bills.

S. Y.

هكذا من الأصل

Liaohua complex

Integrated plant with ambitious plans

THE LIAOHUA petrochemical complex, in the north east of China, is highly unusual by Western standards. First, it is integrated to the last degree, taking crude oil in at one end and turning out plastic washing-up bowls and carpets at the other.

Second, it differs from most petrochemical plants in the developed world in having very ambitious plans for growth. In the next few years it is planned to double sales from last year's Y1.5bn (£275m), at an investment cost well above the original outlay of Y2.8bn (£510m).

It is also planned to attract as much foreign capital to the project as possible.

Work on the complex, which lies 8 km south-east of the city of Liaoyang in Liaoning province, began in 1974. Given that imported technology was used almost exclusively from the start, this serves as a warning against generalising too much about the isolating effect of the Cultural Revolution.

It took until 1980 to finish construction, which scarcely counts as prompt in developed world terms. On the other hand, few plants in the developed world have to build schools, hospitals and housing for a society of 50,000 people (29,000 of whom are the workforce).

Most of the plant was supplied from France — a 73,000-tonne naphtha cracker, a 15,000-tonne reformer unit (to a US licence) an 86,000-tonne polyester unit, a 45,000-tonna nylon unit with an 8,000-tonne nylon fibre line, and a 43,900-tonne ethlyene glycol unit (to a West German licence).

Other countries involved were West Germany with 35,000 tonnes of high-density polyethylene, and Italy with 35,000 tonnes of polypropylene. Ona unit of 32,000 tonnes for polyester staple fibre was supplied domestically.

In 1980-85—tha period of the sixth Five Year Plan—the aim was to expand production by revamping existing plant. This is still going on, pushing the cracker capacity to 90,000 tonnes, and increasing ethylene glycol and ethylene oxide capacity by 50 per cent and polyester by 20 per cent. A new 15,000 tonne polypropylene plant is being built at the same time.

The amount of processing into finished goods is still limited. A plastics processing plant, making such things as kitchen goods, was built in 1984, and takes 2,000 tonnes a year of polyethylene and polypropylene combined. There is also a plant which turns 1,500 tonnes of polypropylene fibre into finished fibres and carpets.

With the revamping of the first phase almost complete, the aim is to move on to the really big developments of the second phase. Yang Wen-Tong, deputy general manager of the complex, says: "It is very difficult to say how much it will cost at this stage. But given the way prices have risen, it will certainly take more than the Y2.8bn that has been spent to date.

"It will be a much bigger project than the first stage, since we now have a solid foundation and should make use of it. That is not merely what we think, it is what the Government demands."

Plans include a big linear low-density polyethylene unit, with capacity of between 100,000 and 150,000 tonnes, and a major expansion of fibres capacity. Plans are still subject to government approval though, and work is not expected to start until 1988-89.

Mr Yang says: "We are just starting to evaluate the technology. We have contacted some foreign companies, but not in depth yet—we need further study. There will not be any major progress on the second phase this year."

One thing certain is that the financing of tha second phase will be different from the first. Mr Yang says: "All the finance for the first phase came from the government. This time, it will come partly from the complex, partly from the government in the form of loans, and partly from abroad.

"So if foreign companies want to invest in phase two, they're very welcome. Naturally, we would be looking for investors who can supply people, technology and equipment."

One of the aims of tha expansion, it is plain, is to increase exports. Like tha other big petrochemical complexes, Liaohua is entitled to export on its own account, and—again like the others—has set up a foreign trade company (in 1985).

"As usual, this is a joint venture between the complex, Sinochem and the local foreign trade corporation of Liaoning province.

According to Mr Yang: "The company was established as a window to the outside world. It handles exports and imports for the complex"—last year's total was US$20m—"and also handles spares, equipment and technology which the complex needs. We also want to emphasise the importance of advanced technology from foreign countries, and to use the company to get more information."

For prospective foreign partners, the export aspect will be of particular importance when it comes to repatriating funds. The rules would be those applying to joint ventures generally; as Mr Yang says: "Our problem is to generate the foreign exchange for foreign companies to take their profits."

This will naturally be disappointing for companies whose chief interest in China is as a market rather than as a base for manufacture. But as is discussed in another article, this forms part of a larger argument about joint ventures and technology transfer, in which a good deal still has to be settled.

Tony Jackson

Chinese engineers confer with a construction manager of John Brown of the UK, which is constructing this high-density polyethylene plant in Shandong province

Foreign exchange

A long-term constraint

THE DEVELOPMENT of the chemical industry in China suffers from one major constraint, both in the short term and the long — availability of foreign exchange. As a result, possession of foreign exchange from exports is of the first importance in the power play between the various state departments; for he who has tha currency has the freedom to invest.

"On a long-term view," says Chen Haoran, vice president of Sinochem, "foreign exchange will always be a problem for China." In the short term, the problem has become acute, for two reasons.

The first is the consumer boom of 1984-85, which sucked in alarming amounts for foreign consumer goods. It has proved necessary to turn the tap off, and there are rumours in Hong Kong of warehouses full of TV sets, and parking lots full of cars, once destined for the Chinese market.

At the same time, the industry has been hit by the slump in the oil price, for it is Sinochem which handles the export of crude. At the port of Dalian, which handles some 60 per cent of China's crude exports, tha effects are bluntly set out by Zheng Yun Sheng, general manager of Sinochem's branch for Liaoning province.

"It will probably reduce our branch's turnover this year by US$1.5bn," he says. "Back in 1981 our average price was over $260 per tonne. Last year it averaged $184. Now it is around $70."

Mr Zheng insists that the volume of crude exports this year will not be reduced—"we prefer to retain relationships," he says. He also reckons that China's total value of exports this year will be maintained, through increased sales of agricultural products and so forth.

To an extent, though, this does not help Sinochem or the chemical industry.

In principle, all foreign exchange goes to the central government, to be allocated according to national priorities. However, as part of the new theory of decentralisation and autonomy, individual organisations are allowed to retain a proportion of the foreign currency realised by their exports, as an incentive to sell abroad.

The results can be quite complex. Normally, Sinochem handles chemical exports, and retains power over foreign exchange accordingly. But the new fiefdoms in Sinopec—tha big petrochemical plants—also have the right to import directly. In such cases, they get the foreign exchange, and Sinochem merely collects a handling charge in local currency.

Mr Zheng explains what happens then. "Use of foreign exchange for investment is normally planned by the banks, or by the state, but not if your foreign exchange covers the purchase.

"And although in the past you had to apply for central permission if you hadn't the currency, now you can borrow it, since asking for permission takes time, and time is money."

This does not apply in all cases, since really big projects have to be cleared by central government anyway. But, says Mr Zheng: "Basically, anything that can be paid for locally can be decided on here."

But there is another twist. If, say, the Liaoning branch of Sinochem happens to be flush with foreign currency, it can lend it to other corporations in the province, or even to other provinces.

In such cases, the cash is repayable in domestic currency, on one condition—that the other corporation or province should route its exports through Dalian port, and the Liaoning branch should collect the foreign exchange accordingly.

Officials describing this process are careful to insist that the allocation of foreign exchange is on the basis of what is best for tha country or region. However, for a factory manager with his eye on a new polymer process from the US, human nature practically demands that he should try to keep the decision within his own hands.

In that sense, the system of foreign exchange allocation is rather a subtla one. By setting corporations and provinces in competition with each other, it is a controlled move away from central planning and towards market forces.

This may make life tricky for a foreign businessman trying to establish who controls the purchasing decision, but it makes good sense in its own terms.

T.J.

Daqing oil venture

Huge and remote oil city

DAQING, site of one of China's biggest new ventures in petrochemicals, is a remote place. Until not so very long ago its very location was a secret; the Daqing oil field, discovered in 1959, is still China's biggest, and is uncomfortably near the Russian border.

Daqing (pronounced Da-ching) was a popular place to send intellectuals for re-education during the Cultural Revolution. It is a huge, flat, marshy landscape, broken only by refineries on the horizon, the only movement coming from the nodding donkeys pumping the oil wells. It is reputed to be the coldest part of China in winter.

Despite that, Daqing Oil City now has a population of more than 800,000, half of whom are oil workers. It consists of a residential centre built up over the past decade, and the surrounding villages.

In the centre of the city, the visitor is shown a hut in which stands the equipment of the original production well, dating from August 1960, with a capacity of just over 100 barrels a day and still producing.

Between 1960 and 1976, the cumulative output from the field was 50m tonnes (365m barrels). Since then, it has been 50m tonnes a year, of which 20m tonnes are exported, mostly through the port of Dalian, to Japan, Korea, and Singapore.

However, Daqing also has 5m tonnes of oil processing capacity. In its vast refinery complex, it turns out besides fuel oils and lubricating oil, fertilisers and acrylic fibre.

The fertiliser is produced by the methane/synthetic ammonia route, starting with a 300,000 tonne US-built ammonia plant. Output of urea—on Dutch plant, installed in 1981—is 480,000 tonnes, and of ammonium nitrate 300,000 tonnes.

There are no plans to expand fertiliser output at present. The main interest at Daqing lies rather with the new ethylene complex, which Lu Jun, director of the local department of Foreign Relations and Trade, describes as "one of the key projects in China at the moment."

The heart of the project is a 300,000 tonne ethylene plant, which has been under construction since 1979—using Japanese technology. Its first phase was commissioned at the beginning of August.

With naphtha—in which Daqing is self-sufficient—as its basic feedstock, it is now at some 80 per cent of capacity, and is planned to reach full capacity by 1988.

Downstream plants are already under construction. By 1990, Daqing will be producing almost 150,000 tonnes of polyethylene—14,000 tonnes of high density, 68,000 tonnes of low density and 70,000 tonnes of linear low density. This formidable project is based partly on West German, partly on Japanese technology.

Other products will include 50,000 tonnes of acrylic fabric, 50,000 tonnes of formaldehyde, and more recondite ethylene derivatives such as acetaldehyde and two ethylhexanol.

The total investment in the ethylene complex, according to Mr Lu, is Y4.2bn (about £765m), all of which has been put up by the state. By 1990, the planned turnover from the complex is Y1.4bn (£250m).

There are no plans at present to expand ethylene output beyond 300,000 tonnes, but some plants will be tacked on further downstream, such as a plastic bag plant, a polyethylene pipe plant, and an acrylic blanket factory.

It would not do to exaggerate the rigours of life at Daqing. The new town centre is pleasant enough, and in the early autumn, when I visited it, some of the surrounding countryside—away from the oilfield—is an idyll of old-fashioned rural life.

As for the winter, the promotional photographs of temples and staircases carved out of solid ice are wonderful. But it looks very very cold.

T.J.

Chemicals in China 6

Agriculture

Plans for building more fertiliser plants

CHINA UNVEILED a wide-ranging strategy in the country's seventh Five Year Plan to make the country more self-sufficient in agricultural chemicals.

A spokesman for the Department of Economic Planning of the Ministry of Chemical Industry outlined plans which include e US\$50m joint venture to manfacture phosphate fertilisers and a US\$97m World Bank loan to upgrade existing industries, build new complexes, and explore for raw materials.

The 40/60 joint venture between China and Tunisia is "one of the biggest projects for the use of foreign funds in China," the official says. It involves the construction of a complex by 1988 for manufacturing 480,000 tonnes of ammonium phosphate a year using a process based on Tunisian phosphoric acid and Chinese ammonia.

Also, the Chinese hope to attract foreign partners to participate in a second series of projects, partly funded by the World Bank loan, to explore phosphate deposits, and to update China's light fertiliser industry and especially to introduce energy-saving processes.

The Chinese Government has already invested US\$750m over the past five years for the exploration and exploitation of natural resources. Raw materials for fertiliser such as phosphate rock, potash and sulphur figured high on the list of priorities.

The ministry also plans to build more fertiliser plants capable of manufacturing compound fertilisers and accepting better-quality ores. "Our priority is to improve quality," the official says.

After Liberation in 1949 the domestic chemical fertiliser industry developed rapidly. According to Ministry of Agriculture figures, production rose from 6,000 tonnes in 1949 to 13.79m tonnes in 1983, when China ranked third in the world. Last year Sinochem, the import/export trading company, sold US\$20m abroad.

At the same time, chemical fertiliser production still falls short of the local demand.

For instance, while domestic production of urea remained static in the early 1980s, imports increased to 58 per cent of the total Chinese nitrogen market.

During that period imports of ammonium phosphates also rose significantly, reaching 1m tonnes by 1983. China bought abroad 1m tonnes of muriate of potash, in 1984, but its real agronomic needs were estimated to be five times higher.

According to the People's Republic of China Yearbook, in 1983 China imported 10m tonnes of standard chemical fertiliser yet "the everage amount of chemical fertiliser applied to every hectare was only half that in developed countries."

China is also, overwhelmingly, a nitrogen consuming country. In 1984 about half of the total nitrogen consumed in China was in the form of ammonium bicarbonate, a material traditionally favoured by the country's small-scale farmers for its low cost and relative ease of application.

The majority of the country's fertiliser output is produced in small-scale, local plants. A notable exception is the Nanjing Chemical Industry Corporation. This is e relatively modern complex producing 240,000 tonnes of ammonium phosphate with ambitious plans to manufacture more complex fertilisers.

Elsewhere almost two-thirds of China's fertiliser production is still from plants with an annual capacity of less than 30,000 tonnes per year ammonia equivalent.

The Ministry of Chemical Industry admits that while China has a surplus of nitrogen its factories produce only a "small" quantity of phosphate fertiliser in relation to demand, and an even smaller amount of potassium. "These two must be a priority to develop," says a spokesman.

There is also a big requirement for pesticides and herbicides, especially for the more efficient, less environmentally-damaging products.

After Liberation, the days when millions starved passed into folklore as China became increasingly self-sufficient in food, thanks in part to fertilisers. Grain production increased from 163.9m tonnes in 1952 to 407.1m tonnes in 1984. Over the same period the total application of fertilisers rose from 78,000 tonnes to 17.73m tonnes in 1984.

The rural peasant was among the first to benefit. Today his average income hovers around 400 yuan a year. Yet selling surpluses have brought many new wealth, including their own home, TV sets, radio-cassette recorders and washing machines.

Agriculture today accounts for two-thirds of total employment in China and contributes nearly half of the national income. The total annual output value of agriculture was yuan 361bn in 1984. The Ministry of Agriculture encourages the farmers to use more chemicals to meet ever-rising economic planning targets for food production.

However, for the foreign trading companies expecting to reap a bountiful harvest, "business is miserable," says John T. Kamm, vice president and general manager of Diamond Shamrock.

"The Ministry of Chemical Industry, which controls fertiliser production, is the most protectionist of all the Chinese industries," he says. "They are champions of self-sufficiency."

On the other hand local fertiliser firms complain about a price squeeze which is tempting them to sell abroad. Wei Zheng, head of the Nanjing Chemical Industry Company, complains that "the farmers buy fertilisers, and the policy is help them out by reducing prices. We are being squeezed between government policies to make more product and upgrade our factory yet sell a low-priced product."

NCIC manufacture 2,500,000m tonnes of fertilisers and chemical byproducts a year and earned a total profit of yuan 100m in 1985. Yet Zheng admits he is tempted to sell abroad. "The demand abroad is much more than we can supply."

Stephanie Yanchinski

Hugh Routledge

Farmworkers clear a lotus field near Peking

Business banquets

Capacity for enjoyment

FOR ANYONE visiting China on business, an inescapable part of the trip is the banquet. This is an opportunity or a hazard, depending on how much you like Chinese food.

The term banquet is slightly misleading, since to the Western mind it implies a grand affair with after-dinner speeches. The Chinese banquet is much less formal, and can take place at lunchtime—usually around 11 or 11.30 am, since the Chinese are early risers — or in the evening, at 5.30 or 6 pm.

Numbers are normally limited to as many as can be fitted round one table — eight or 10, say. The dishes will be brought in at intervals, to applause if they are particularly spectacular, and put on a revolving disc in the middle of the table.

It is impossible to avoid eating a lot. As guest of honour you will be placed next to the host, who courteously insists on filling your plate at regular intervals. This can lead to slight problems; the reaction of foreigners to Chinese food in China—as opposed to London or New York, say—varies, and even if your opinion, like mine, is highly favourable, there can come a point at which particular delicacies like sea slugs and bright blue preserved eggs become tricky to handle.

It is essential to plan your capacity. Banquets are devised to rise to a crescendo just before the end, with the big courses of fish or poultry.

And then there is the drink. It is a point of courtesy, sometimes made explicit, that the guest should be made drunk; otherwise, he is deemed not to have enjoyed himself.

Usually, three glasses are lined up at each place—beer, grape wine (normally very sweet) and one or other of the ferocious Chinese grain-based spirits, which range up to 55 per cent alcohol (compared with gin or whisky at 40 per cent).

Toasts will be elaborately proposed, with honorific speeches and words of welcome, in any one of the three drinks. The commonest, though, is the glass of spirits. If the host judges that things need hurrying along, you will hear "ganbei," an instruction to down the glass in one.

Invariably, your hosts will puff at cigarettes. The incidence of cigarette smoking is very much higher among the managerial classes in China than in the West, and the Chinese have none of the Western inhibitions about smoking between courses: they smoke during courses.

As an example of a lunchtime banquet, here is what I recall of the menu I was presented with at the Yanshan petrochemical complex, not far from Beijing. By comparison with some others, it was a modest affair, but it sticks in my mind partly because the food was so good, partly because it was all prepared in the factory canteen.

The first course: cold slices of roast beef and pork, served plain with tofu (soya bean curd), salted nuts and pot vegetables.

The second course: squid with green peppers, and sea cucumber with bamboo shoots.

Then inkfish, also with green peppers.

Then a quickening of the tempo, with a whole sweet and sour sea fish—called a kingfish—served with spicy aubergines. Then the climax—a whole steamed duck.

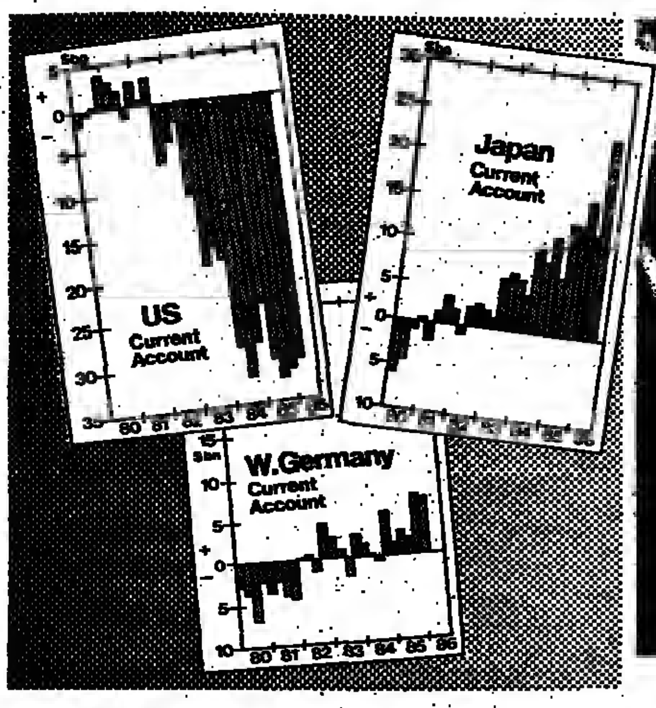
Then, to wind down, boiled rice, and the liquor from the duck as soup.

The company was eight in number, and the toasts—in beer and red grape wine from northern China—were frequent throughout.

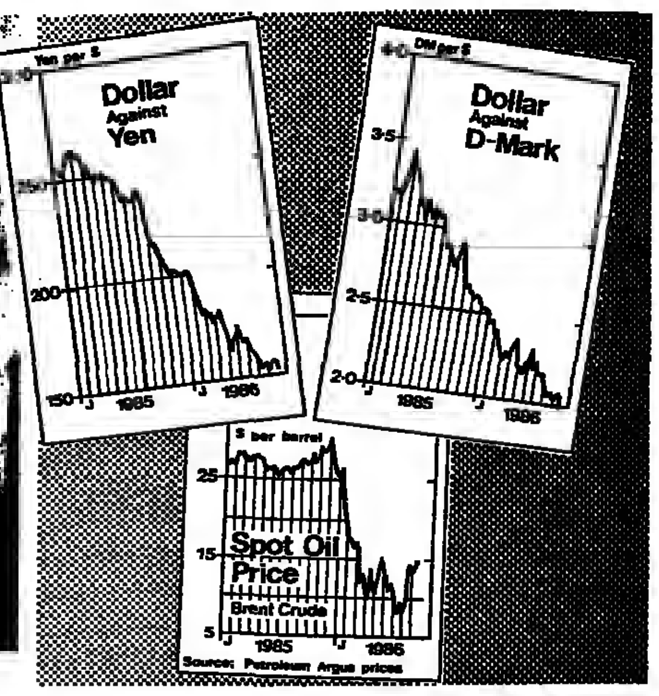
Tony Jackson

SECTION IV

FINANCIAL TIMES SURVEY



Relaxing at the Plaza — Federal Reserve Board chairman Paul Volcker (front) with the Group of Five finance ministers. The euphoria of the historic meeting has since been dampened by current account imbalances.



World Economy

Oil prices, inflation and interest rates are down. The post-Plaza dollar has descended gracefully. Yet the prospects for faster, more balanced growth in the world economy are still uncertain.

By Philip Stephens
Economics Correspondent

WESTERN economic policymakers are wondering what went wrong. A halving in the oil price, interest rates at their lowest for five years, inflation down to the levels of the 1960s, and a dramatic but smooth slide in the value of the dollar ought to have been the recipe for an economic boom.

Instead, economic growth slowed sharply and world trade stagnated. The huge US current account deficit and the associated resurgence of protectionist pressure in the US Congress—perhaps the main threat to international economic stability—got worse rather than better.

Many developing and heavily-indebted countries, already squeezed by weak international commodity prices and creditor-imposed austerity, suffered yet another fall in real income.

In parallel, the spirit of co-operation and elation, which accompanied the September 1985 Plaza accord to drive down the value of the dollar, has frequently given way to transatlantic and trans-pacific bickering.

Even stock markets were reminded that prices can go down as well as up, with turbulent trading last month in New York, London and Tokyo shaking their earlier affluent complacency.

The gloom is now beginning to lift. There are signs that the pace of economic activity is picking up as the huge income gains in industrialised countries, flowing from lower oil prices, feed through to increased demand.

The International Monetary Fund's forecast of a return to real growth averaging about 3 per cent in industrialised nations during 1987 is widely regarded as the best available judgment on the outlook. Inflation, below 4 per cent in the industrialised countries as a whole and virtually non-existent in Japan and West Germany, may have levelled off, but it shows no signs of re-igniting.

At the same time, the occasionally acrimonious exchanges between Washington, Bonn and Tokyo on their respective responsibilities have masked some measurable progress in the strengthening of international policy co-ordination.

The indicators of economic policy and performance being pored over by finance ministers and central bankers at this week's meeting of the IMF do not, as yet, represent the revolution in co-operation which US Treasury Secretary James Baker claims.

As Samuel Brittan explains on page 3 of this survey, there is a long way to go before such indicators could ever represent a system of automatic stabilisers for the world economy—even if governments were prepared to agree the cession of national sovereignty which that would imply.

It does seem, however, that governments of the Group of Five—the US, Japan, West Germany, France and Britain—are edging, albeit slowly, towards agreeing a loose framework for their respective roles in sustaining world economic growth.

The lesson of the past year has been that there are no easy remedies for the imbalances in the world economy; nor simple correlations between lower inflation and faster economic growth.

The oil price slump, generating a trade gain of $90bn annually for oil-importing countries, has not yet proved the panacea that many had predicted. Oil-producers have reacted much more quickly in tightening their belts, in response to falling revenues, than consumers in the oil-importing countries have in spending their windfall.

Over time (and with the large proviso, of course, that the oil price does not rebound), the net impact should still be beneficial; but the gains may prove to be much smaller than were the losses during the price-rise shocks of the 1970s.

At the same time, the sharp drop in nominal interest rates, which has accompanied lower inflation, has not had anything like the same impact on real borrowing costs, which remain at twice the level typical of the 1950s or 1960s.

Similarly, the fall in the value of the dollar—since its peak in March 1985 it has fallen by over 40 per cent against the D-mark and the yen—has by no means proved a solution to US trade woes.

The US current account deficit may reach more than $130bn in 1986, and then fall only fractionally in 1987. Japan's surplus is now projected at over $80bn this year, with the prospect of only perhaps a $10bn reduction in 1987.

West Germany expects to record a surplus of $25bn to $30bn in 1986, although that figure is forecast to fall quite sharply in 1987 and beyond.

It is this current account imbalance that is at the heart of the differences between Washington, Tokyo and Bonn, and which has dampened the euphoria in the Group of Five since the Plaza accord.

Part of the explanation for the apparent lack of reaction to the dollar's fall is found in the natural tendency of trade prices to react much faster than trade volumes to exchange-rate changes, creating a perverse J-curve effect.

The dollar's fall against European and the Japanese currencies has also obscured the fact that its value against those of countries like Taiwan, South Korea and Canada has hardly changed. The competitive gains for US industry have therefore been limited.

The reaction of Washington has been to demand faster growth in Japan and West Germany to help adjust the trade flows—with the threat that those countries will have to accept an even sharper appreciation of their currencies against the dollar, unless they stimulate their economies.

It points, with some justification, to the still-record levels of unemployment in most European countries as evidence that governments on this side of the Atlantic have enough spare capacity in their economies to push for faster output growth.

Japan, whose economic growth rate has suffered particularly from the appreciation of the yen, and who has most to fear from protectionism in the US, has reacted with the now familiar mini-package of expansionary and liberalisation measures.

West Germany, however, which remains to be convinced that inflation has been more than temporarily banished and has seen its economy pick up recently, has argued that the old-fashioned pump-priming of the 1970s is no answer to the US problem.

Its reply to Washington's demands is that the restoration of equilibrium to the world economy will depend on the Administration's good intentions

CONTINUED ON NEXT PAGE

"Reports of the death of the world economy have been greatly exaggerated," writes US Congressman JACK KEMP, a contender to succeed President Reagan, in an article on page 9.

On page 8, Professor DAVID CURRIE, who advises Shadow Chancellor Roy Hattersley, explains why he is not optimistic about prospects for effective economic co-ordination among the G5 countries.

And on page 3, SAMUEL BRITTAN analyses the US-German economic Kulturkampf.

ON OTHER PAGES

Co-operation, Unemployment	2
Trade, Oil, Interest Rates	4
Debt	5
Profiles of western economies	6 and 7
Commodities, Forecasts	10

WORLD ECONOMY 2

Co-operation

Mr Baker's pragmatism

A YEAR AGO, in an abrupt change in America's foreign economic policy, the newly-installed US Treasury Secretary, Mr James Baker, called the finance ministers and the heads of the central banks of the other four leading industrial powers to a top-level meeting at Plaza Hotel in New York.

After a session lasting several hours, the officials emerged and Mr Baker disclosed that they had agreed to work together to try to reduce the international value of the dollar on the foreign exchanges. The next day, President Ronald Reagan, in a major policy statement, underscored his commitment to free trade.

Thus, after four years during which the Reagan administration had constantly berated its trading partners for the inadequacy of their economic policies, and had stoutly maintained, against the logic of conventional economic analysis, that the strong dollar was a reflection of the inhereot strength of the US economy and not a manifestation of the imbalance between fiscal and monetary policy, Mr Baker conceded, in effect that the strength of the dollar was a problem, and that it could best be resolved through international economic co-operation.

Mr Baker's conversioo to the cause of international economic co-operation represented primarily the response of a pragmatic and far-sighted politician to tha pressures he could see building around him. The US trade deficit was already surging towards the $150bn mark it eventually hit in 1985, draining the strength from the US economy and presenting the Administration's political enemies with a potentially potent political issue.

The dollar was already declining sharply, but both Mr Baker and Federal Reserve Board chairman Paul Volcker believed that a further orderly decline, particularly if it was accompanied by accelerated economic growth in other industrial countries, would reduce the trade deficit, defuse protectionist pressures and improve the growth of the US economy. That, in turn, would help to improve the outlook for heavily indebted developing countries.

US concerns about the Third World, particularly Latin America, which is a major export market end whose debts to American banks could pose a threat to tha stability of the US financial system, spawned the second leg of the international economic policy initiatives that Mr Baker launched in the autumn of 1985.

At the annual meetings of the International Monetary Fund and the World Bank, in Seoul, Korea, in October, Mr Baker unveiled the so-called "Baker Plan" for trying to resolve the debt crisis. The proposal, although vague on details, called for more active involvement of governments through the multi-lateral institutions, in an effort to inject additional funds into third world economies, so as to shift the emphasis from economic austerity imposed through the IMF towards growth-orientated economic adjustment policies.

The refined debt strategy called for the World Bank to play a more active role in economic policy formulation in a group of some 15 major third world debtors. A fresh approach to the problems of sub-Saharan Africa's economic problems was also on Mr Baker's agenda for action. The implicit promise in the policies he proposed was that, if they showed promise of success, then the US would support an increase in the capital of the World Bank to support higher lending levels.

A year on, the best that can be said of Mr Baker's initiatives is that the high hopes which some US officials held out have yet to be realised. There have been some successes; and few would quarrel with the contention that the outlook today would be worse if Mr Baker had not seized the initiative as he did a year ago. Nevertheless, the fact that progress on several fronts has been much less dramatic than Mr Baker (and Mr Volcker) hoped, represents a political reverse for the Administration, even though unexpected changes in the world economic situation have contributed to the worse-than-hoped for economic policy climate that faces US officials today.

The Plaza agreement in particular has not fulfilled its promise of improved economic policy co-operation, even though its thrust was reinforced at the Tokyo economic summit, which underwrote efforts within the IMF to develop improved mechanisms through which the major industrial countries could monitor their economic performance and try to agree npon complementary economic policies.

The most visible expression so far of co-operative economic policymaking has been in the field of monetary policy, where there have been a couple of co-ordinated cuts in interest rates. One came in the wake of a bitter division within the Federal Reserve Board over monetary policy, which first saw the board out-vote Mr Vnlcker on a Discount Rate cut, only to reverse itself hours later in order to give him time to secure an agreement from Japan and West Germany that they would act in concert.

So far as trade and protectionism is concerned, however, the outlook today is as bad, if not worse, than it was a year ago. Far from declining as hoped, the US trade deficit has risen further and is now expected to hit $170-180bn this year.

This deterinration is attributed, in part, to the delayed reaction of trends in trade to changes in currency valnes, particularly on the import side. The fact that tha dollar has not declined against tha currencies of nations accounting for close to half of US trade (the newly industrialising countries of Asia in particular), slow growth abroad, and a decision by many firms exporting to the US to accept lower profit margins rather than raise prices, have also prevented an improvement in the US trade balance.

The result is renewed pressure in Congress for protectionist legislation, which many say will revive next year even if the Reagan administration is able to fend it of before the mid-term elections in November.

On the third world debt front, too, Mr Baker's initiatives can scarcely be said to have borne fruit. The major success story—at least in the short term—has been Brazil, which has avoided dealing with the IMF, mnch to the irritation of the United States, which cannot claim it as a "Baker plan" success.

Instead, the test case for the Baker plan is shaping up to be Mexico, a country whose problems have been magnified by the dramatic decline in the price of oil. While Mexico's relationship with the World Bank, the IMF and its commercial bank lenders remains unresolved, in spite of the flexibility which the IMF (nnder pressure from the US) has decided to show towards it, the Baker plan for third wnrld debt also has a rudimentary quality to it; the more so in the face of the continuing decline in commerciel hank lending to major borrowers.

In the field of macro-economic policy, rapid progress in co-operation among the industrial countries was not to be expected. In the United States, the imminent and crucial mid-term elections have helped to paralyse fiscal policy at a time when more sluggish economic growth than projected has made tha budget deficit look mnch worse than many had hoped, and heightened the risks of a bold attack on the deficit, such as that proposed in the Gramm-Rudman-Hollings hudget reform law.

The decision facing the industrial trading partners of the United States is therefore a difficult one. They cen remain unwilling to take the sort of aggressive action to stimulate their econnmies which the [illegible] pressing for, and run the risks that prote[illegible] pressures in the US w[illegible] and that their economies continne to operate under the threat that the Federal Reserva will ease monetary policy further and that the dollar will drop again against their currencies, perhaps in a less orderly fashion. Or they can surrender to US pressures, and participate in at least a modest concerted stimulative economic policy which will demonstrate that Mr Baker's efforts to achieve improved international economic policy co-operation are still bearing fruit.

The weaker the US economy looks, the greater the pressure on the industrial countries to support Mr Baker, in spite of their fears about the potential for adverse repercussinns at home. For a top priority now must be to demonstrate that the industrial countries are working together to try to head off the threat of protectionism and a world recession.

Stewart Fleming

Unemployment

Investment may be Europe's cure

EVEN BEFORE the recent pause in world economic growth, tha OECD and other international forecasters could offer little solace for the unemployed. Conveotional wisdom has it that in 1987, for the sixth successive year, more than 30m people will be jobless in the rich industrialised world. Countless more millions will remain unemployed or underemployed in developing countries.

The persistenca of high nnemployment has become an accepted fact of economic life. So much so that few people now remember the promises made by politicians in the early 1980s. If inflation is brought under control, they said—echoing the advice of central banks, finance ministries and the IMF—growth will revive and dole queues will shrink.

Inflation in most countries is now under control: consumer prices in OECD member states are rising more slowly than at any time since 1967. Yet in many countries unemployment marches steadily higher—for example, in Japan, the UK, France, Italy, Australia and Spain. Elsewhere, little hope of a sizeahle reduction, even hy 1990, is held nut. Tha link between inflation and unemployment is proving more tenuous than many expected.

Given that total world unemployment ls rooghly static, unemployment ecoaomists have been focusing more intently on varies between countries. The most important characteristic of unemployment is its duration. Short johless spells are little cause for concern, and indeed are essential in a flexible market economy; long periods of idleness, however, are a complete waste, both for workers and for their economies.

Unemployment is much more serious in Europe than in either the US or Japan. This is not just because the overall rate is much higher (nearly 11 per cent, compared with under 7 per cent and under 3 per cent respectively), but because the average duration of jobless spells is much longer. In the large EEC economies, about 60 per cent of the unemployed have been jobless for six months or more; this compares with about 20 per cent and 40 per cent in the US and Japan.

Much of the increase in unemployment in the 1980s is explained purely by the increase to *long-term* unemployment. In the UK, for example, the whole of tha increase in male unemployment since 1981 is due to a huge rise in the numbers jobless for a year or more; tha numbers unemployed for shorter periods have actually fallen.

A second important facet of nnemployment is its uneven impact on different age groups. Among the young it is particularly damaging, because it can affect work attitudes and capabilities for a lifetime. Most governments therefore have devised special schemes to halp the young unemployed.

Even so, yonth unemployment rates vary much more between countries than adult rates. In the UK and the US, the youth unemployment rate is roughly douhle the overall johless rate, whereas in Italy the youth rate is nearly three times as high. West Germany, on the other hand, manages to keep youth and adult unemployment rates roughly in line, at about 8 per cent.

West Germany's achievement, which seems mainly to reflect the efficiency of its industrial apprenticeship schemes, suggests that, even if countries cannot rednce their overall unemployment rates, they can do a lot to reduce youth unemployment. Countries with relatively high youth unemployment, such as France, Italy and Britain, still lack adequate training programmes.

Economists disagree about the medium-term outlook for world unemployment, mainly because they disagree abont its causes. One theory, which seems to have gained in popularity in the past year, is that employment may be constrained by lack of industrial capacity. The argument has particular plausibility in Europe, where investment in real terms has barely recovered to 1980 levels in spite of a surge in capital formation since 1983.

There has been a steady rise in the rate of utilisation of industrial capacity in the EEC in recent years, which mirrors the sluggish growth of output. As a result, capacity-utilisation levels are now quite high by historical standards. The problem is that it might prove difficult to make much of a dent in unemployment even if existing capacity were used more intensively. There just is not enough of it: a recent study for the European Commission suggests that capacity is about 15 per cant below the level required for full employment. The moral is that Europe may need to save and invest more if it is to reduce unemployment significantly.

Another theory which remains popular is that much of the high unemployment is caused by excessively high or rigid real wages. However, the argument that unemployment is high because real wage growth has outstripped productivity growth is not wholly compelling. It may perhaps help explain why European unemployment is high, relative to US nnemployment; hnt it does not explain why Japanese dole quenes are so short. The IMF admits, in the July issue of Staff Studies that "real labonr costs have increased substantially faster in Japan than in other countries, and yet unemployment remains low."

This may be because the rigidity of real wages is more important than their level. The OECD has recently devised a clever measure of rigidity. Real wages are rigid, it says, when money wages are mnch more responsive to price increases than they are to unemployment increases. On this measure, Britain, among the large industrial economies, has the most rigid wages and Japan the least rigid. Since Britain has also experienced the biggest rise in unemployment since the mid-1970s and Japan the smallest, the theory so far looks quite robust.

The cures prescribed for world unemployment neturally depend on its perceived causes. Those who regard it almost as an unchangeable Act of God advocate work-sharing—a fairer distrihution of whatever employment is available. Those who believe unemployment is largely dne to wage rigidity advocate institutional changes, such as the introduction of profit-sharing. In Europe, the British, French and Danish governments heve shown particular interest in this idea.

Those who put the blame squarely on a lack of growth and investment advocate a stimulus to demand, with inflation kept in check, if necessary, by some flexible form of incomes policy. The one thing economists are agreed upon is that the world's dole queues will not easily be shortened.

Michael Prowse

Prospects still uncertain

Continued from Previous Paga

ebout reducing its budget deficit being translated into action. The current account deficit, it contends, is essentially tha mirror-image of the budget deficit.

The imbalance between the US and Japan, in particular, seems rooted in much more fundamental economic disequilibria than tha dollar-yen exchange rate. The huge excess of Japanese savings over investment opportunities, and the comparable shortfall between the demand and supply of savings in the US, point to an inevitable imbalance in their trade account to reflect those capital flows.

There are also disturbing signs that America's lack of competitiveness in world markets reflects not only price factors but e more basic shift in comparative advantage away from US industry. Increasingly, economists are drawing parallels with Britain's experience over the past 20 years.

The Tokyo government's apparent commitment to structural reform, signalled by the Maekawa report earlier this year, and the Gramm-Rndman-Hollings deficit rednction law in the US, may, in the long-term, provide part of the answer.

But the prospects there are far too murky and long-term to satisfy the political imperatives of US policymakers. In the meantime, the concern must be that efforts by the US Administration to pressurise West Germany and Japan might send the dollar into free-fall.

In recent months, Mr Paul Volcker has epparently been more concerned with the health of the US financial system than with the risk of a dollar collapse. Bnt the recent turhulence on the Naw York stock market has once again signalled the danger nf a resurgence of inflatiooary expectations.

Mr Volcker's recurring nightmare—shared by other leading central bankers—is of too fast a drop in the dollar's value triggering a sharp rise in interest rates and driving the US and the rest of the industrialised world into recession.

These uncertainties in the industrialised world are mirrored by the new dilemmas faced by developing and heavily-indebted conntries. The sharp slowdown in world trade seen over the past year, and failure of the Baker debt initiative to generate substantial new financial flows to indebted countries, heve further tightened the austerity screw on many third world nations.

The adjustment programmes demanded by western governments and by the IMF and World Bank have appeared increasingly onerous to governments, in Latin America and elsewhere, which have presided over dramatic falls in living standards in recent years.

The US-German Kulturkampf

By Samuel Brittan, Assistant Editor

The destabilising feature for the world economy has been an abrupt change of policy in the second Reagan term, aggravated by long-term trends against traditional American exporting industries.

INTERNATIONAL macroeconomic co-operation is fashionable again; but there is little agreement on the rules of the co-operative game.

The political difficulties of obtaining changes in a country's policies for the sake of the international community are well known enough. But we cannot even talk sensibly about the politics if we have no clear idea what it is that could reasonably be required of a country in the name of international co-operation.

Should Germany administer a fiscal or monetary boost or both or neither? Should the US try to reduce its Budget deficit quickly or slowly? There is little intellectual agreement on the answer to these questions. So it is not clear what the International Monetary Fund, or some directorate of finance ministers or heads of government should be trying to do, even if they had more power. All we have are some exercises in game theory, suggesting that most individual players will themselves benefit from a co-operative game. But what should be the substance of the co-operation?

The one attempt to look systematically at the requirements of international co-operation is the work that has been assigned to the IMF on a system of "objective indicators" for use in multilateral surveillance.

A mere list tells us nothing of itself. At the highest IMF level, the process of developing the indicators is seen in four stages.

1. *The IMF staff will try to* obtain an internally consistent picture from the governments of major members, of the development of the indicators in their countries.
2. The next stage will be to compare *the projections of different* countries for major inconsistencies and incompatibilities.

This might involve a less "sanitised" version of the IMF Economic Outlook, which would reveal rather than paper over *tensions between the aims and* expectations of different members.

3. The subsequent aim would be to try to adjust national policies to iron out or lessen conflicts. It does not need negotiations to prevent *arithmetical* inconsistencies from occurring. There is, for instance, no way by which every country could have a current payments surplus. The point of the discussion would be to see that consistency was brought about without destabilising the world economy.
4. The final objective—still a distant hope—would be to "optimise" performance i.e. not merely to minimise conflicts, but to do so in a way which brought about the best possible combination of growth, low inflation, stable exchange rates, liberal trade and so on.

Even the first stage of obtaining a consistent picture from a particular country is fraught with problems. Should the agreed numbers be forecasts or targets? And why should either *the targets or the forecasts* of a national government be accorded any special status compared with the views of sceptical outsiders?

Many of the indicators are beyond the power of governments to determine, certainly by conventional instruments of financial policy. Governments can increase their budget deficits or pump more money into their banking systems. But whether this will produce more *growth* or more *inflation*, and in what degree and on what timescale is uncertain and controversial. Similar remarks apply to interest rates. Despite the illusion produced by central bank setting of key short-term *lending* rates, *ultimately* interest rates are determined by factors such as world savings and investment, inflation expectations, and international confidence.

Another drawback of the indicators *is that they are technically* "overdetermined." That is they are not free to vary independently. The rate of inflation is related to the rate of monetary growth, despite all the changes which occur in the demand to hold money as a result of institutional change and changes in inflation itself. Clearly, too, there is a relationship, loose-jointed in the short term, between the inflation rate and the exchange rate.

One suggested breakdown of the indicators is between policy instruments, intermediate objectives, and final goals. Even these distinctions are controversial, and will depend on the economic strategy and implicit economic model followed by the government concerned.

The inherent difficulty of the IMF approach is the lack of confidence that the IMF, or anyone else, has in a full model of the relationship between the indicators, even when they are subdivided in the way suggested. There is too much uncertainty, both *about* the general structure of a valid model and the correct size of the parameters linking the policy instruments with the intermediate and final indicators within any particular model.

Take a specific example. An increase in the underlying fiscal deficit is, other things being equal, likely to lead to a deterioration in the current balance of payments account, as overseas lenders are called upon *to fill the savings gap.* A current deficit has therefore to be generated equivalent to the net investment inflow from abroad. But will this inflow be at a higher or a lower exchange rate? The US has seen both in succession; with first the soaring and then the collapsing dollar.

One way of simplifying the procedure would be to summarise each country's internal objectives by examining the *intentions and likely outcome* in relation to Nominal GDP. This has the great advantage of economising on the use of scarce and uncertain information.

Anyone who uses Nominal GDP accepts that conventional monetary and fiscal policy does influence the level of demand in money terms. But how any rise in demand is divided between inflation and real growth will depend on the response of business, trade unions and other economic agents, and cannot directly be determined by the finance ministers or central banks.

The use of Nominal GDP is Keynesian to the extent that it accepts government responsibility for demand management, but revisionist in disclaiming any intention to target real variables directly. It is monetarist in its emphasis on not accommodating inflation, but post-Friedmanite in allowing monetary growth to vary in response to changing velocity trends and in allowing a role for fiscal policy.

In terms of the IMF indicators, Nominal GDP is somewhere between a *final* and an intermediate indicator. Instead of focusing on monetary growth or interest rates, it focuses on the growth of the national income in money terms (that is, money times velocity) which is the higher level goal. It is not an ultimate goal of policy in the sense that high growth or low inflation is. But it may be the highest level goal at which financial policy can sensibly aim—leaving it to structural, *micro or labour-market policies* to improve the mix between real growth and inflation.

It has the great advantage from the point of view of IMF surveillance in that it leaves member governments largely to *their own devices* in the choice of monetary aggregates, money market procedures, budgetary rules and so on; and surveillance is confined to the higher-level goal. Indeed, an IMF team can look at the likely growth of Nominal GDP, whether or not a particular country has any stated objective for this variable. Some national authorities, who claim to dislike the principle of Nominal GDP objectives use them in practice. For instance, the Bundesbank, in a recent Bulletin, justified its reluctance to relax monetary policy in terms of the expected movement of Nominal GDP.

This is far from being just an esoteric matter. One reason why the US *Administration has had* such a hard time in persuading Germany and Japan to expand demand is the language used by the Treasury and Fed. James Baker and Paul Volcker often talk the outdated language of post-war demand management, which assumes that governments can affect growth quite directly by injecting money into their economies. It is hardly surprising that the Germans think immediately of the ill-fated attempt at concerted reflation at the 1978 Bonn summit, and warn that the results will again just be more inflation.

If US pleas were simply that Germany should aim to maintain the growth of Nominal GDP, it would be clear that it was simply asking the Federal authorities to maintain the growth of demand in money terms, despite lower inflation. This would provide some headroom for higher real growth; but if that growth failed to occur inflation would still be contained.

To give an *entirely hypothetical* example. Suppose Germany has been experiencing nominal demand growth of 5 per cent, consisting of 3 per cent inflation and 2 per cent real growth. Then if inflation drops, whether temporarily or permanently, to 1 per cent, German demand growth would still be maintained at 5 per cent. The best result would be that German output growth would rise to 4 per cent and inflation remain at 1 per cent. The worst that could happen is that inflation would go back to 3 per cent without any *growth boost.* But there would be no chance of inflation taking off to higher levels.

This deliberately oversimplified question begs the question of what rate of Nominal GDP growth Germany should aim for in the longer *term.* Should it play safe and go for something like 3 per cent, to be reasonably sure of zero inflation in the long run? Or should it take more of a risk with, say, 5 or 6 per cent? Surely, this is a matter for Germany to decide?

Indeed, even if we are thinking, not just of demand management, but of the more basic long-run determinants of real GNP, such as hours of work, the retirement age, the educational system, *savings* and investment incentives, the functioning of the product, capital and labour markets, the tax system, research and development and so on, the case for national autonomy is still stronger. If (although it is most unlikely) the Germans wanted to enjoy the fruits of productivity advance solely in the *form* of shorter hours, a more leisurely pace of life, and behaving in general like lotus-eaters, it is not Mr James Baker's business to stop them.

No doubt, if Germany, Japan and the rest of the industrial world achieved faster underlying growth, the US could achieve any given current balance of payments objective at more favourable terms of trade. But even the US has to accept the preferences of its trading partners as given data to which its own economy has to adapt.

What Baker and the other G5 and G7 members can reasonably ask of Germany is to accept in, so many words, some medium-term objective for the growth of German Nominal GDP, which would change only gradually, and try to minimise deviations from the selected path in either direction. This stabilisation objective would, of course, be shared by German policy-makers themselves, although not perhaps given top priority. But then the most successful kind of international economic co-operation is that which urges governments to try a little harder to achieve what is in their own national interests.

I have phrased the argument in terms of Germany, although the quantities at issue are greater in relation to Japan, only because it is the Germans who like to take the Americans on in an economic *Kulturkampf*, while the Japanese prefer a softly-softly approach.

Just as Nominal GDP is the key to co-ordinated demand management, the savings and investment gap is the key to co-ordinated action on trade and payments. A country's current account depends ultimately on the trend of savings relative to domestic investment opportunities. If there is a savings shortfall, there will be a current deficit, as in the case of the US. If there is a savings excess, as in the case of Japan and Germany, there will be a surplus. No amount of manipulating exchange rates will eliminate payments imbalances unless it affects savings or investment behaviour.

But it is quite legitimate for a country to have a high savings ratio and invest the surplus overseas. Indeed, such a surplus is a contribution to world development. It is also legitimate for a low-savings country like the US, to borrow from overseas to finance capital development. The policy becomes more questionable if domestic savings are artificially reduced by a large budget deficit. But, even then, it is a matter for the US to weigh up the risks and opportunities.

The destabilising feature for the world economy was not the US opting for a low-savings, high-trade deficit option in the first Reagan administration. The destabilising feature was the abrupt change in the second Reagan term, from glorying in this borrowing role, to a sudden revulsion against the damage that the high trade deficit was inflicting on US exporters, especially in the oil-producing and agricultural states. US policy to correct the deficit has also suffered from being lop-sided. By this, I mean that the depreciation of the dollar has run ahead of any parallel action on the structural budget deficit.

What is making matters worse is that the pressures on US industry are due not only to the trade deficit, but to a shift in the pattern of comparative advantage away from traditional US specialities—a process akin to the shift away from manufacturing industry in the UK, which has given rise to so much doom-laden special pleading.

It may be politic for other countries to make a few policy gestures they would not otherwise undertake to keep congressional protectionists at bay. But ultimately the US trade problem—if problem it is—is home-generated; and neither US import constraints nor demand stimulation elsewhere, will cause it to go away. The home-grown nature of US problems would, however, be clearer if the German and Japanese authorities unequivocally accepted their demand management responsibilities, and did not see the spectre of Weimar inflation at a time when the cost of living index in their countries has been actually falling.

IMF "OBJECTIVE INDICATORS"

Policy Instruments	Interest rates Fiscal deficit
Intermediate Objectives	Current and trade balances Monetary growth Exchange rate Foreign exchange reserves Savings ratio
Policy Goals	Real GNP growth Inflation rate Unemployment rate

Trade

Echoes of north-south

TRADE MINISTERS were in Uruguay last week to launch the eighth international negotiation since the General Agreement on Tariffs and Trade was signed by 23 countries in 1948. The Gatt was not just a set of rules for the conduct of international commerce, but the principal forum for dismantling the high tariff walls that had stifled trade and world economic growth before the second world war.

Today the Gatt has expanded its membership to 92 countries—with the notable inclusion of Mexico this year, and active participation by the Chinese who have applied to resume their membership. Two-thirds of the Gatt signatories are developing countries, and the agenda for the eighth negotiating round bristles with reminders that the north-south debate has moved from the political periphery to the very centre of planning for world economic growth.

The Gatt has never been the forum for co-ordinating economic policy, managing exchange rates or organising the flow of financial resources from north to south. But the relationship between these, and the increasingly ragged trading system, is the background against which the new round—if indeed there is a new round—will take place.

It will take four years, and probably longer, for the trade negotiations to come to any kind of conclusion. The agenda is the most ambitious yet attempted, and probably the most controversial.

Yet it would be wrong to see the Gatt talks last week and to the future as a crude polarisation of north and south. The erosion of the Gatt rulebook is as much the product of tensions between the US, EEC and Japan as it is of tensions between developed and developing economies.

For example, the US and and EEC have been hovering for several years on the brink of a trade war over agriculture. Both, in turn, have kept up an unremitting campaign against Japan for what they see as its refusal to manage its economy so as to increase its imports from the West while enjoying the benefits of the Gatt in terms of relatively easy access to western markets.

Nor are developing countries united on any but the broadest grounds of securing maximum access for their export goods while retaining the right to protect their own infant industries from foreign competition. There is a difference of approach between the indebted countries of Latin America (although Mexico, for example, has taken considerable steps to open its economy) and the fast-growing countries of south-east Asia and the Far East.

Again, big agricultural exporters like Australia, Canada and New Zealand have a strong common interest with developing countries in both Latin America and SE Asia, with cattle-ranchers in Argentina as with rice-growers in Thailand. These nations have formed their own lobby to protect themselves against the depredations of the export subsidy systems of the European Community and US, and have promised to maintain that pressure throughout the negotiating round.

It is in the debate about extending the Gatt framework to cover new areas of trade that the north-south divide is most apparent. The US has secured the firm support of the EEC, and more muted acceptance from Japan, of the need to widen the rules to cover trade in services. With somewhat less support, the US is seeking to curb the abuse of patents and trademarks through the Gatt, and ensure that government regulation of foreign direct investment does not lead to trade distortion.

An important minority of 10 developing countries has been resisting the inclusion of any of these subjects in a negotiating agenda, although discussions in the margins of the Gatt have been under way for some time.

This group has consistently denied the compentence of the General Agreement to do for services what it has tried to do—and succeeded in doing at least until about a decade ago—for goods; that is, to dictate the forms and justifications for protection and to liberalise trade by successive rounds of tariff cuts.

Although they present it as a constitutional issue, the ten countries are really anticipating two results: first, that their access to western markets in goods will be made conditional on their providing access for services—banking, insurance, data processing, transportation and the rest; and second, that their own service industries will be overwhelmed by multinational conglomerates, and their balance of payments driven further into the red. Justified or not (and economists say they are unjustified), these fears go to the bottom of the north-south divide.

In vain have the big services exporters in the US and western Europe argued that developing countries are themselves world-competitive in some services like construction, or that cheaper and more efficient providers than their own will improve their industrial competitiveness.

Another grievance that unites developing countries is the growth of non-tariff barriers to their manufactured exports, especially steel, textiles and clothing, and agricultural products. Devices not sanctioned by the Gatt have proliferated to protect ailing industries in the west from low-cost suppliers (often using technology sold to them by the west).

Japan, the first of the so-called NICs to achieve industrialised status, is the principal victim as far as manufacturers are concerned. But a recent World Bank study estimates that the developing countries have suffered disproportionately.

Attempts to redraft the Gatt rules for taking emergency action against imports—the so-called safeguards clause—will be central to the new round. Western countries, notably in the EEC, argue that safeguards must be selective if they are to be meaningful, and that the General Agreement should be rewritten to recognise modern realities. The suppliers argue that the principle of non-discrimination is a cornerstone of the system that cannot be taken away without the edifice collapsing.

The obverse of the safeguards argument, which the developed countries will be stressing, is that the new trading nations must accept the obligations of full Gatt membership as their industries develop. The right to claim exemption from Gatt disciplines on developmental grounds must gradually be given up. "Graduation," as it is known in Gatt parlance, is so sensitive a subject that trade negotiators avoid using the word if they can.

Christian Tyler

Oil

Benefits from the price fall

"BY FAR the most important development influencing the change in the economic outlook since December has been the drop in oil prices," says the latest economic report from the Organisation of Economic Co-operation and Development.

The economic effects of the fall in the price of oil, from more than $30 last year to between $10 and $15 now, are on balance happy ones for the industrialised world, although the benefits are spread with little eye for equality. Oil producers gain, and consumers loose.

One of the most obvious ways in which a fall in the oil price affects the economy is by lowering the rate of inflation. The OECD calculates that the average inflation rate this year in industrialised countries will be cut by about 1.3 per cent as a direct result of an $11 fall in oil prices. It notes, however, that the actual effect could be smaller if producers fail to pass on lower costs to consumers, or if governments respond by increasing direct energy-related taxation.

The second direct effect of lower oil prices will be to increase growth in industrialised countries through a sharp reduction in their import bills. According to estimates by the International Monetary Fund, an $11 drop in oil prices would cut imports by some $60bn a year—equivalent to a ¾-to-1 per cent improvement in GNP.

The collapse in oil prices has also meant a wholesale shift in income, from oil producers to oil consumers, both between countries and within countries. A massive transfer is taking place between Opec members and industrialised countries, while the developing countries are left, on balance, slightly better off, and the communist bloc's reserves modestly diminished.

Assuming a $10 fall in oil prices, OECD countries would reap a net gain of £63bn during the second half of this year, chiefly at the expense of Opec, which would finish the year £59bn down, according to OECD numbers. Within industrialised countries, oil producers stand to lose nearly $70bn in revenue, much more than offset by a great consumers' gain of about £130bn.

The share-of-income between public and private sectors will also be affected, especially in oil-producing countries where a government may be left sharply worse off through lower oil-related taxes. In Norway, for example, the effect is the most severe, as $10 off the price of oil means a 10 per cent reduction in total government revenues. Such a price fall would mean a 7 per cent loss to the Netherlands government, and a 3 to 4 per cent loss to the government in the UK.

Such large-scale redistributions of income in themselves effect the general level of demand, as different countries and different groups spend and save their income in different proportions. While, eventually, such variations may cancel each other out, in the short term the effects can be quite large.

This time nobody is expecting a simple mirror-image of the pattern set by the two oil shocks in the 1970s, when the oil price leapt sharply, resulting in a higher level of saving.

The effect of the sudden cut in oil prices is not expected to bring about a similar reduction in saving. This is because financially-strained oil companies are likely to cut back their expenditure more sharply than richer consumers increase theirs; while governments faced with the unlooked-for gain of higher revenue may use it to cut budget deficits rather than spending it. Governments of oil-exporting countries, on the other hand, most of which are already subject to economic stress, are taking swift action to cut consumption in line with lower revenues.

A second asymetry between this oil shock and the last two is the likely response of governments. In the 1970s, governments of developed countries adopted painful contractionary economic policies to combat the inflationary effect of surging oil prices. This time, however, most of them are in the grips of steady medium-term policies, and are not likely to respond with expansionist measures.

Even if governments provide no boost of their own, there may be a round of favourable secondary effects created by the market itself, as lower inflation and higher business confidence lead to growth, and perhaps to some reduction in unemployment.

Moving to an era of $15 oil is bound to create some of the upheaval which went with learning to live with very much higher prices, as those worst hit become unable to meet their obligations. Most urgent are the problems of the near-bankrupt private oil companies in the US, and of financially insecure oil exporting nations such as Mexico, Venezuela, and Nigeria.

This time, however the shock waves are not expected to be so large, and few expect a new debt crisis on the scale of the last one. The OECD argues that, with oil at $15 a barrel, the

CONTINUED ON NEXT PAGE

Interest rates

An orderly descent

THE FINANCE ministers and central bank governors of the Group of Five countries can look back with a certain amount of satisfaction on their handiwork. Their commitment to undertake co-ordinated intervention in the foreign exchange markets to bring the dollar back to a more realistic level has had its effect.

The dollar has not only fallen, but it has fallen in a relatively orderly fashion. The heavy intervention by the G5 central banks in the autumn of 1985, when they sold more than $13bn of dollars in the foreign exchange markets in the wake of their agreement at New York's Plaza hotel on a new campaign against the dollar, not only served to send the US currency lower to the short term but also provided a warning to the markets in the longer term.

Market operators were taken aback at the success of the authorities in halting and then reversing the rise of the dollar, and to the following months they showed considerably greater willingness to take heed of the official view on exchange rates.

Even without the backing of intervention, statements from senior central bankers on the desirable level of exchange rates have on occasion been enough to push the market one way or another.

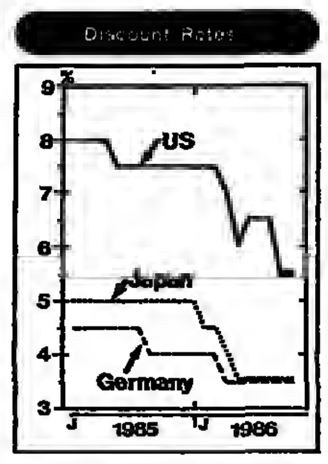
Of particular importance has been the fact that the foreign exchange markets have not simply driven the dollar into the sort of headlong decline that could provoke the central banks into action in support of the dollar.

Although the Bank of Japan has in recent months spent heavily and for the most part fruitlessly in a bid to prevent the dollar breaking even lower against the yen, the fear that the West German Bundesbank might join it in intervention has helped to brake the dollar's descent.

The result has been that, since its peak in March 1985, the dollar has declined by 40.7 per cent against both the Japanese yen and the West German D-mark. The bulk of the fall has been concentrated in the year since the Plaza agreement, during which the dollar has lost 30 per cent against the D-mark and 36 per cent against the yen.

While the dollar's uncompetitive position against these two major currencies may have been reversed, doubts remain over whether there has been enough of a revision to the entire structure of dollar exchange rates to reduce the mounting US trade deficit.

Many of the US's other trading partners, especially in the Far East, have not seen their currencies rise by nearly as much against the dollar, if at all.



Against the Hong Kong dollar, for instance, the US currency has fallen by only 0.2 per cent over the past year.

Canada, another major trading partner of the US, has also kept its currency closely in line with the US dollar, which has gained 0.6 per cent against it over the last year.

In the wake of the G5 intervention to September to October last year, exchange rates actually became more stable from day to day, possibly because the markets became more convinced that the authorities would prevail.

In the spring of 1985, the dollar/D-mark exchange rate shifted by more than 1 per cent on seven separate days in March, on 11 days in April and on nine days in May. But after nine days in September on which the exchange rate moved by more than 1 per cent, October saw only four days with such a marked shift, November one day and December two.

In the spring of this year, however, following the G5 meeting in London in January, volatility rose noticeably once again, with even sharper movements against the yen than against the D-mark.

Significantly, the decline in the dollar was accompanied by a steady downwards movement in interest rates, abetted by the collapse of oil prices and, as a result, of inflationary expectations around the world.

This helped to ensure that the US fiscal deficit could still be financed from overseas, despite the weakening of the US currency.

Talk of "a co-ordinated round of interest rate cuts" had surfaced shortly before the January G5 meeting, but it became reality in March, when West Germany lowered its discount rate, swiftly followed by Japan, the US and the Netherlands.

Cuts in official interest rates in Italy, the UK, Canada, France, Sweden and Belgium, soon followed.

Hopes of a new era of international co-operation in interest policy turned out, however, to be somewhat overblown. The Bundesbank did not follow the subsequent drop in US and Japanese discount rates in April; indeed, its half percentage point discount rate cut in March was not translated into lower money market rates.

Frankfurt money market rates were actually higher in March than in February and drifted down only slowly after that.

The appearance of co-ordination broke down further as the US administration began to urge more expansionary policies on its G5 partners in view of the pause in economic activity that set in in the first half of the year.

This culminated in two unilateral discount rate cuts by the US Federal Reserve Board in July and August. Widespread expectations that West Germany, if not Japan, would be compelled to follow suit in the interests of international solidarity proved to be wide of the mark.

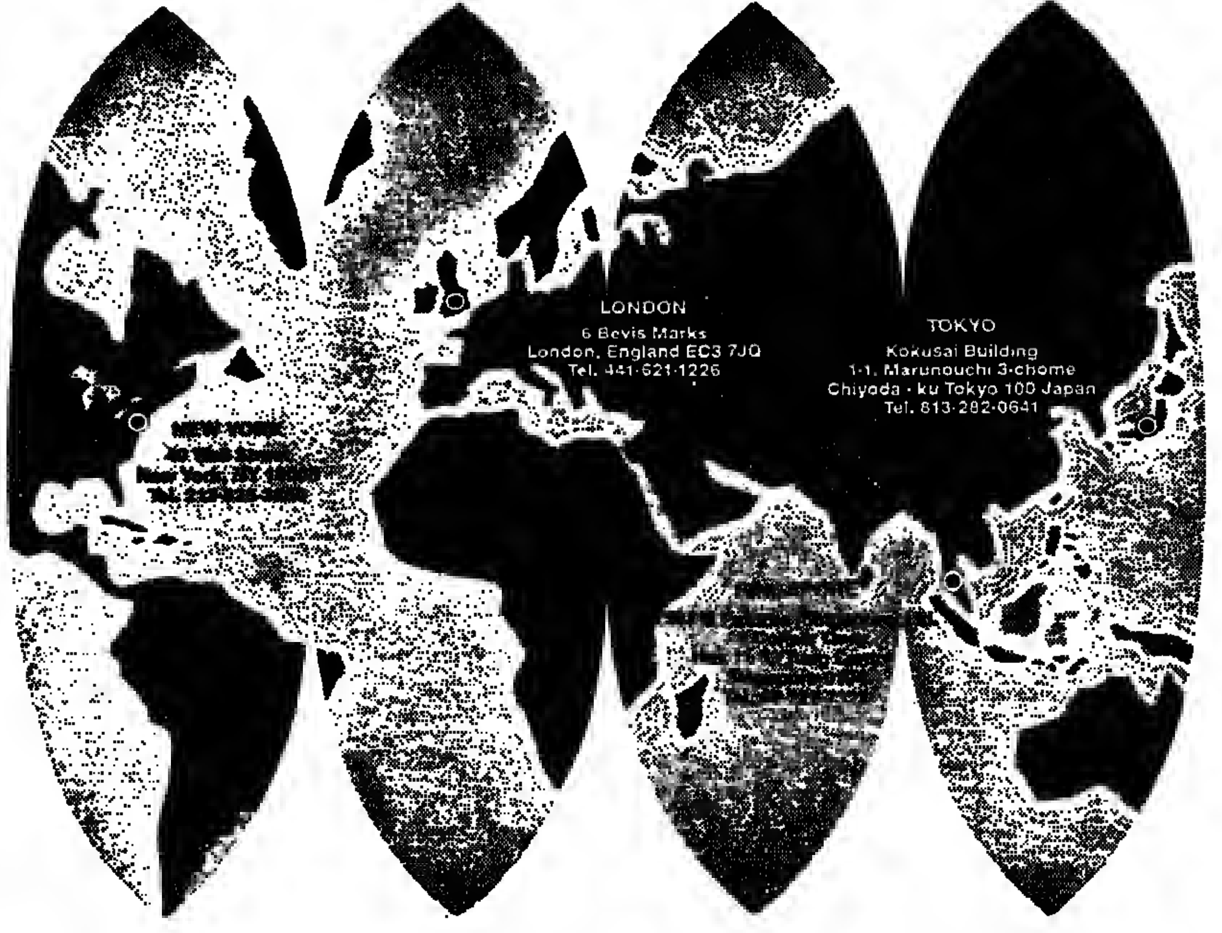
However, the cuts did not lead, as had been expected, to an immediate further collapse of the dollar against the yen or the D-mark.

Closer to home for the Bundesbank was the pressure for a cut in the discount rate exerted by the D-mark's strength within the exchange rate mechanism of the European Monetary System. Currency values within the system were realigned in April, at the request of France—the first adjustment, except for the Italian lira, for more than three years.

The D-mark's rise against the dollar, however, has led to increasing strains in its cross-rates with other EMS member currencies. It contributed to the pressures which compelled Ireland to seek an 8 per cent devaluation of its currency within the exchange rate mechanism on August 2, and has put the Danish krone under mounting pressure ever since.

This has brought pressure from France, which is keen to lower its interest rates but would have difficulty doing so without a German discount rate cut while the franc is trading below its central rate against the D-mark.

George Graham



Debt

Creditors under pressure

THE RENEWED difficulties experienced this year by Mexico in servicing its $100bn foreign debt have served as o sharp reminder that the four-year-old developing-country debt crisis is still a long way from solotion.

Intensiva efforts since 1982 to reschedula debts of developing countries, and to provide them with fresh bank finance to cover their balance-of-payments gap have still not put the major borrowers on an even keel. Even the mnch-vaunted plan launched a year ago, by US Treasury Secretary James Baker, to ease the problam has so far had little tangible impact.

Indeed, in tha view of many observers the debt problem has got worse rather than better in 1986 as the debtors themselves step np the demands they place on their creditors.

This is not just becaose of the Mexican difficulties, themselves largely the result of the collapse in oil prices which could cost the country some $8bn in lost foreign exchange earnings this year. A shock of this dimension would be enough to ensure grave problems for even the best-behaved and docile debtor, but it should thereotically be isolated to those which are particularly dependent on income from oil.

Instead, a whole range of countries are now clamouring for futher relief, including several for whom oil is only a small part of the picture.

Argentina, which is self-sufficient in energy, wants interest rates on its foreign debt lowered to a real rate of just 2 per cent. Peru has run up such large arrears from the International Monetary Fund that it has been declared ineligible to borrow any more. It says it cannot pay the arrears because of the low world prices for the matals it exports.

Brazil, which has a buge trada surplus and one of the strongest reserve positions in Latin America, says it is no longer willing to forfeit domestic growth by paying oot some $10bo a year in debt service. It wants such payments restricted to 2.5 per cent of gross domestic product.

At the other side of tha world, the oew Philippines government of Mrs Cory Aquino is labouring under the disastrous growth record of her predecessor Ferdinand Marcos. It also wants to limit debt payments so as to be able to revive the economy.

All these arguments have a common thread. It is that the persistance of high real interest rates, coupled with a continuing shortage of foreign capital inflows, have mada the debtor coontries net exporters of capital.

Tha Inter-American Development Bank reckons that Latin America has suffered a net capital outflow of almost $100bn since tha dabt crisis started. The money, which could otherwise have been used to promote investment nt bome, went on paying interest to creditors who are collectively owed $368bn; and the effect has been to intensify a reccession which bas seen real per capita incomes in Latin America drop by 8 per cent since 1980.

In the Philippines, Mrs Corazon Aquino is labouring under the disastrous growth record of her predecessor.

It would, of course be mnch easier for all these countries if world trade volumes were expanding more strongly, so that they could export more, thus adding to thair foreign exchange resources. But here they run np against two other obstacles. Commodity prices, on which many depeod, are still low—and, in a particularly weak market for agriculture prodocts, tha debtors are battling against efforts by industrial nations to preserve their market share with subsidised products.

Protectionism against mannfactured goods is also growing, and paradoxically one of the contributing factors to the sluggishness of world trade has been that tha debtors cannot afford the import of capital goods they need to revive their own export industries. Import volume in Latin America fell by around one-third in the first half of the decade.

The challenge facing policymakers now is, how to sort out this problem, while both preserving the integrity of the banking system through which many of the loans were channelled, and restoring growth in the debtor countries themselves. Since the launch of the Baker plan last year, it has been generally accepted that the debtors must be able to grow out of the debt problem if a sustainable solution that is also politically acceptable at home is to be found.

That has pushed the whole discussion on debt into a more general macro-economic plane. Though commercial banks still have a large part to play in providing finance, it is now clear that there is not much to be gained from going for a banking solution alone. Trade issues have become inextricably linked up with debt, and at the same time creditors have been taking a new look at the sort of economic adjustment which the debtors themselves must undergo.

The approach favoured by Mr Baker is a market-orientated one, in which the debtor countries strive to make their economies more efficient by eliminating distortions caused by subsidies and state-ownership. The debtors have been urged to channel more of the scarce resources available to them into productive investment, and to open their doors to inward foreign investment.

On paper this looks perfectly sensible; in practice it has beeo hard to push through, because it implies a major cultural change in many of the debtors, whose economy and banking system cushions government and a relatively narrow class of rich entrepreneurs from the reality of an open system.

Meanwhile, the International Monetary Fund has also been forced to recognise the political limitations on the traditional economic adjustment imposed on debtors. As oil prices weakened earlier this year, it faced a tense confrontation with Mexico over the size of the latter's budget deficit.

The IMF wanted the deficit cut to around 5 per cent of gross domestic product. The Mexicans argued that this was impossible at a time when fiscal receipts were under strain because of falling oil prices, and high interest rates were swallowing up a growing proportion of its total spending. In the end Mexico won; and the IMF was forced to concede a much higher target for the budget deficit, as well as a facility designed to ease the strain on Mexico, should oil prices fall even further.

Mexico's IMF agreement will be seen as a blueprint for other countries too. It could mark the start of a more gradual approach to economic adjustment, which spaces out the time available to debtors to absorb radical and much needed economic and social change. Cynical creditors might equally argue that it is the start of the slippery slope, in which the disciplines successfully imposed on the debtors since the debt crisis started will be lost.

At any event, the Mexican solution seems unsatisfactory from one major point of view. It still requires commercial banks to put up large amounts of money—estimated currently at around $6bn between now and the end of 1987—in a market that has grown jaded and increasingly resistant to the kind of forced lending that has prevailed up till now.

Lending by commercial banks to the developing world actually fell in the first quarter of this year with outstanding loans declining by $5.2bn, according to the Bank for International Settlements.

In this climate it is hard to see how voluntary flows of capital to the debtors could resume, or even how banks can continue to be forced to put up large new loans. Many bankers now believe that, short of an actual write-off of their existing debt, which they cannot afford, an increased burden of financing will have to be taken by the official sector in the years that lie ahead.

Peter Montagnon

Price-fall benefits

CONTINUED FROM PAGE 4

financial strain created by oil-related default is containable and will not spill over into a general financial collapse.

It says that the US has large enough financial resources to cope with the problems in its own back yard, so long as the financial authorities are sensitive to the needs of over-exposed banks in the south-west. Meanwhile, banks heavily lent to the oil-exporting dabtor countries will have a greater amount of time and resources to devote to them, as the falls in oil prices and interest rates have moved many of the other troubled debtors out of tha intensive care unit.

Even without the problems of default, there are other costs associated with adjustment to a sharp move in oil prices. Just as there were projects, investments and existing capital stock that had to be scrapped when oil prices rose, so there are likely to be further capital losses now that oil prices have fallen. Most obvious are the buge energy investments in oil exploration, and in developing alternative energy sources which are economic only at high oil prices.

Most of the studies of the effect of lower oil prices assuma that the price falls, and then stays put. If, in fact, prices continua their alarming swings of recent months, the effects may be quite different.

In its latest World Economic Outlook, the IMF warns that, if oil prices fluctuate wildly between $15 and $25, the effect on the world economy could be "seriously destabilising," and equivalent to a series of shocks to GNP of between ½ and 1 per cent each.

If such n movement persisted for long enough, tha effect oo world economic activity would be badly depressing, as both consumers and prodncers saved more against onfavourable and unexpected price swings.

Lucy Kellaway

Export volumes are declining

THE STRENGTH of the yen is pushing Japan towards its first recession in over four years. More important, it is probably also forcing the country to restructure its economy away from export dependence much more quickly than planned.

The rise of the yen has been the dominant factor in Japan's economy in the past year, being the main cause of both the soaring current account surplus and the slump in the vital manufacturing industry.

Many forecasters believe Japan's current account surplus will exceed $90bn this year, well above the record $55bn achieved last year.

Japan's current account surpluses are usually based on the strong performance of its exports-orientated industries. However, this year the volume of exports is actually declining. The increase in the trade surplus is now due to the huge increase in the yen value of exports and the sharp decline in the cost of the country's principal import, oil.

In July, for example, the volume of exports was down 0.9 per cent but their dollar value was $7.8bn, up 22 per cent from the July, 1985 figure. On the other hand, the cost of mineral fuel imports, mainly oil, was down 44 per cent.

The so-called J-curve effect is expected gradually to unwind over the next few months, provided there is no further significant increase in the value of the yen.

Already, however, the impact of the high yen on overall output is considerable. Foreign demand, which accounted for 40 per cent of the economy's 3.7 per cent real growth in 1983-84, was a 0.9 per cent negative factor in the first quarter of this year.

The volume of imports has been rising partly because the yen makes them cheaper, and partly because the Government has bought some $2bn worth of gold so far this year in connection with a plan to mint a new commemorative coin. Ministry of Finance officials say that, even excluding the gold, the volume of manufactured imports is growing at an annual rate of more than 10 per cent.

The manufacturing industries operating index has been declining for over a year, and unemployment has risen to a post-war record 2.9 per cent, as more and more companies shed workers and cut back on hiring plans. The real unemployment rate is much higher, but is concealed because many companies keep idle workers on the payroll.

However, apart from the manufacturing sector, the economy is still fairly healthy. Overall domestic demand was up fractionally in the first quarter of the year, and consumption rose 1.2 per cent in the second quarter. Department store sales have been particularly strong, up 6.6 per cent in both the first and second quarters.

Output of non-manufacturing industries is also holding up. The index of industrial production was up 1.3 per cent in the first quarter.

Investment figures suggest that these trends will continue. Investment by manufacturing industries in the first quarter was down 2 per cent, and recent surveys have pointed to a 5 per cent decline in the full year. On the other hand, investment by non-manufacturing industries jumped 24.2 per cent in the first quarter and is expected to remain strong.

However, despite the relative strength of these segments of the economy, they are nowhere near enough to soak up the massive inflow of funds to Japan. The Bank of Japan has reduced its discount rate three times this year (it now stands at a postwar low of 3.5 per cent) in an attempt to stimulate the economy, but so far to little avail.

Gross national product fell 0.5 per cent in real terms in the first quarter, and many forecasters believe growth in the current fiscal year (to March 31 1987) will only be about 2 per cent, half the official forecast made at the beginning of the year.

The main impact so far of the easy-money conditions has been to incite people to take their savings out of the bank and put them into the stock market or speculative property investments.

Money supply (M2 plus certificates of deposit) has been rising at about a 9 per cent rate so far this year. In the second quarter, bank savings fell 28.5 per cent and the flow of funds into investment trusts quadrupled.

It is against this background that some fierce debates are raging, both inside and outside over the Government's fiscal and monetary positions.

The Bank of Japan has been strongly resisting—so far successfully—pressure from the US to make another cut in its discount rate. The US believes a cut would help stimulate domestic demand in Japan, notably for US products. The BoJ disagrees, claiming that money is already easy enough.

The problem is that if the US economy continues to weaken, then the Federal Reserve will want to reduce its discount rate again. But if the gap between Japanese and US interest rates widens, then the vital flow of surplus Japanese funds to finance the US budget deficit could slow.

Meanwhile, on the domestic scene, the Government is under increasing pressure to provide a major Keynesian stimulus to the economy to offset the slump in manufacturing industries.

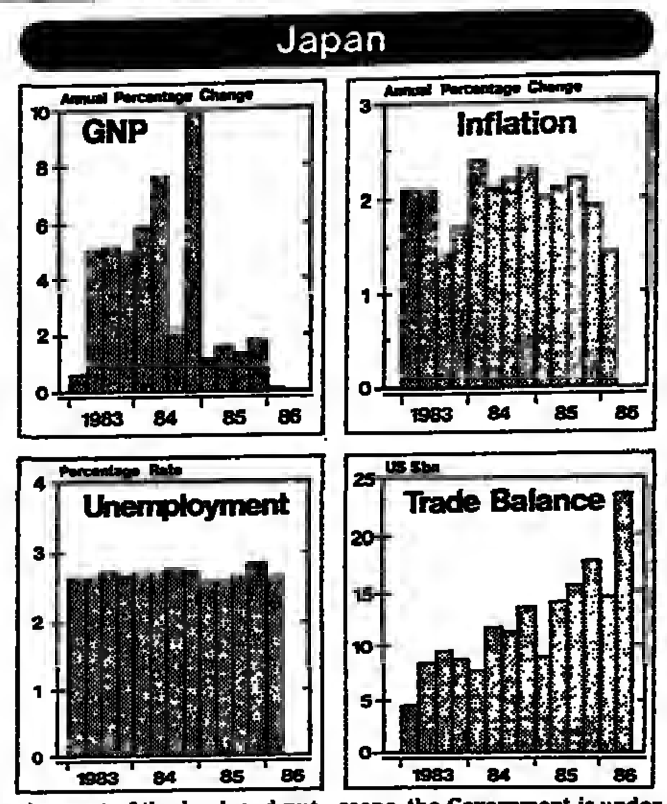
A supplementary budget will be presented next month, perhaps providing for Y3,000bn of new spending, but it will probably be too little too late to have much impact on output this fiscal year.

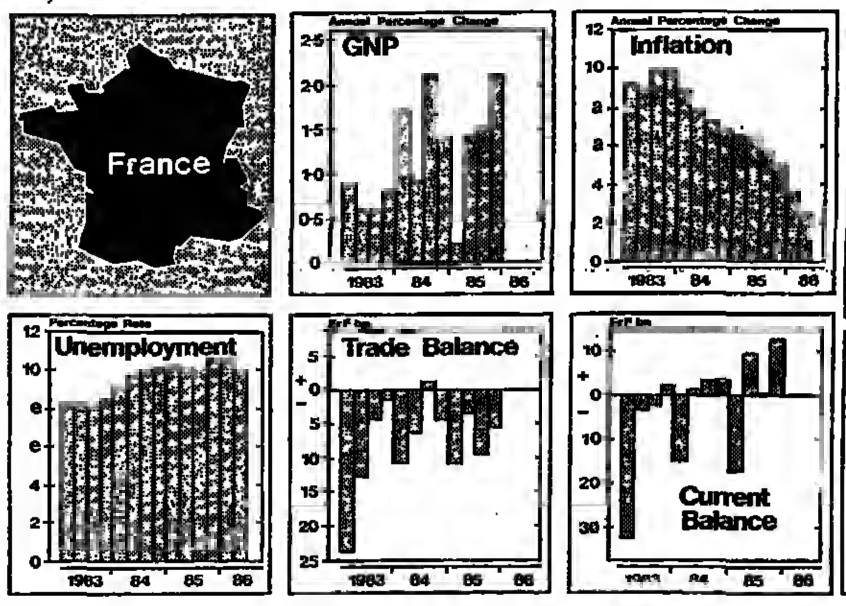
Many private forecasters are looking for another year of weak growth in fiscal 1987, but a lot will depend on the speed with which the restructuring of the economy away from export dependence occurs.

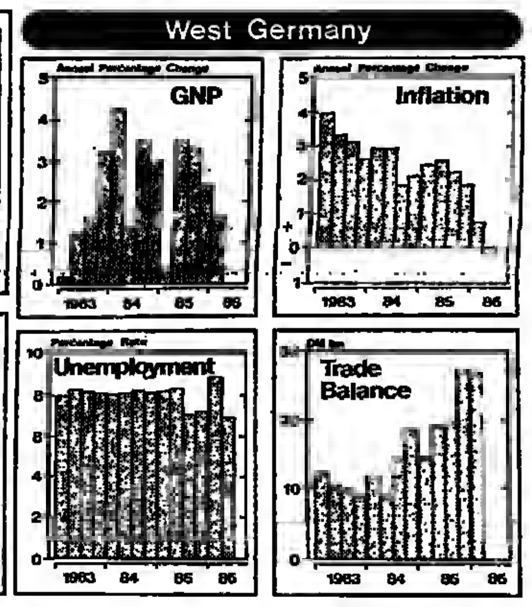
Most export-dependent manufacturers have recognised that it is futile for them to try to offset the effects of the high yen. They know that in so far as they succeed, they only increase the pressure for the yen to rise still further.

It is very difficult for them and for the Government to redirect their efforts towards domestic consumption; but, as in the past, they will probably adjust to their new circumstances faster than most outsiders expect.

Ian Rodger







Trade and jobs are the two worries

AFTER THE minimal growth rate of recent years, there are signs that the pace of ectivity in the French economy is beginning to pick up. Real GDP expanded by 2.3 per cent in the 12 months from July 1985 to end June 1986 and next year's Budget is hased on the assumption of a 2.8 per rise.

The level of expansion remains below that of West Germany. But France needs to keep a step behind if it is not to repeat the 1982 experience when a French growth rate in excess of the West German led to a sucking in of West German imports and a calamitous widening of the French trade deficit.

As it is, the trade account and unemployment remeln the two worrying aspects of the French economy. Notwithstanding a potential saving on its energy bill this year, of FFr 75bn as a result of lower oil prices, the cumulative trade deficit over the first seven months had reached FFr 5.9hn on an edjusted basis. As a result of this, forecasts for the overall trade surplus for the year have been downgraded to about FFr 10bn—though the current eccount should still achieve a aubstantial FFr 30bn-FFr 40bn surplus.

Behind this disappointing trade performance lies a loss of industrial competitiveness, as reflected io Frence's shrinking surplus on trade in manufactured goods.

The surplus on trade in manufactured goods bas dropped from FFr 103bn in 1984 to FFr 89bn and e figure expected to be less than FFr 80bn this year.

At tha same time, unemployment rose by a substantive 1.4 per cent in July to a record 2.47m people—equivalent to 10.5 per cent of the workforce.

In contrast with these two bleck spots, fears that the March devaluetion of the franc would revive inflation have so far proved misplaced. The yeer-on-year infistion rate fell to 2 per cent at the end of July—a level not seen since 1966.

The consumer price index is likely to rise more sharply in the second half of the year under the impact of rising food prices and the further lifting of price controls. But the likelihood that the Government will now achieve its objective of limiting inflation to 2.3 per cent by the end of the year is an important element in holding down wage settlements.

Most of the growth over the last 12 months has come from household consumption, as a result of tax cuts and falling oll prices increasing real personal incomes.

A further stimulus to growth came from fixed capital investment, whlch rose by 9.6 per cent over the period. Tha pick up ln capital outlays was particularly strong in the second quarter of this year, with the private sector, including honsing and industry, contrihuting e 4.5 per cent jump over the previous quarter.

Indnstrial investment should remain on an npward curve in the coming 18 months on the beck of expanding corporate profits.

The external sector has contrihuted littla to growth over the past year, with the rise in ioternal demand being sucked into imports and export growth remaining modest.

Uncertainties over non-oil, developing-country markets during the current year have led the Government to downgrade lts export forecasts. But France ahould still benefit from the delayed effects of the devaluetion, and from the pick-up in special items such as armaments and Airbus sales.

The expectation of higher growth next year has given the Government more leeway in constructing the 1987 Budget in that tax receipts will be higher. The Budget is built eround a reduction ln the budget deficit of FFr 15bn and a cut in taxea of FFr 27bn.

On the expenditure side, receipts from privatisation, falling intarest rates and lower fuel costs have enabled the Government to evoid the need for painful budget cuts. The major real savings are being made on e reduction of the Civil Service by some 25,000 posts and by cnttlng back industrial subsidies.

David Housego

Mr Kohl will not oblige Washington

NOT FOR the first time, the West Germans are discovering that economic over-achievement tends to make other people jealous.

It happened in 1978, when the then Social Democrat-led government of Chancellor Helmut Schmidt yielded to international pressure and indulged in a little domestic pump-priming, in the supposed interest of world economic growth.

Today, oil prices are falling, not soaring. But the demands being mede—from an impatient Washington in particular—on the centre-right coalition, which has been in office since October 1982, are similar. This time, though, Mr Helmut Kohl, the Christien Democrat chancellor, does not intend to oblige them.

The problem, once again, is growth: or rather, Bonn's critics abroad wonld argue, the lack of lt. West Germany is presently in the fourth year of a steady, unspectacular economic upswing which virtually guarantees Mr Kohl e second term after the next federal election on Jannary 25.

As the Government sees it, the 3 per cent expansion likely in 1986, and the promise of more of the same next year, is proof enough of the anccess of its thrifty, comparatively market-orientated, policies, especially when coupled with a Deutsche mark mighty once more, a negligible budget deficit and a negative Inflation rate in August of around 0.5 per cent.

Why, it meintains, upset the apple-cart by taking further reflationary measures when domestic-led growth is already assured? "In so far as we can act as a locomotive for the world, we already are," says Mr Martin Bangemann, the economics minister. And indeed, consumer spending is likely to rise by 4 per cent in 1986, while corporate Investment is now rising strongly, after a string of flet years.

None of this, of course, explains why the country's surplus on foreign trade, the most tangible evidence of the inability of the home economy to consume all that it produces, continues to grow, to e like record of DM 100bn ($49hn) this year, after DM 73.6bn in 1985. But the Government has an answer to that as well.

It is, in e word, the famous "J-curve," the graphical expression of bow appreciation of e currency tends, in the early stages, to increase the trade surplus it is supposed to diminish. Thus lt is with Germany, wbose imports, at 7 per cent in volume terms, are climbing mnch faster than exports, et just 2 per cent.

The trouhle this time is that, while export prices are steady, import prices are 15 per cent less than a year ago: not just thanks to the increase in the value of the Mark, but to the collepse of oil and other raw material prices as well. Bnt Mr Gerhard Stoltenberg, the finance minister, assnres that amharrassing surplus should be falling by 1987, as the distortions disappear.

However, the US, many other industrial nations, end not e few experts, do not see things quite so simply. Germany, after all, is the dominant economic power in the EEC, and the EEC as a whole is the greatest economic power in the world. *So if Germany did do more, the Community and everyone else would benefit.* And they insist, Germany *could* do more.

A growth rate of even 3 per cent this year is questionable. But even lf it does materialise, it would be well below the country's potential. A step on the accelerator would not only benefit less virtuous rivals by helping their exports; it might also lead to a faster decline in unemployment, stuck at over 2.1m, or 9 per cent of the workforce, without rekindling inflation.

The Germans, with that self-satisfaction which cen often infuriate, remain impervious to such reasoning. In fact, thnugh, they are being forced into a compromise of sorts, while the root diagnosis of the two camps docs not differ so greatly.

The immediate compromisa lies on the interest rate front.

Rupert Cornwell

A calm picture hides trouble

THE US economy is now in its fourth year of sustained economic expansion, and most economists are projecting that real economic growth will continue through all of 1987.

Unemployment seems to hn stuck around the 7 per cent mark, high by thn standards of the 1950s and 1960s; but, taken in conjunction with the 10,000,000 fresh jobs that have been created during the current economic upswing, a level which other industrial nations, particularly those in western Europe, continue to envy.

Inflation, too, is nndnr control. Through the impact of weak oil and commodity prices, inflation rates are stable, although most private economists suggest that in the months ahead, with the impact of falling oil prices dissipated, an underlying rate of consumer-price inflation of around 3 per cent is likely to reappear.

A reassuring picture presented by these aggregate statistics serves only to prove bow misleading such data can be. For, whnn looked at in greater detail, the US economy is in troubln and, as n result, so too is the world economy. Since 1983 it has been expansion of thn Amnrican economy thet has powered the worldwide economic upturn of thn past three years.

Now that impetus from the US is fading, and there are deepening donbts about whether America's industrial trading partners can provide the missing stimulus.

One measure of thn problnms facing the American economy is the rate of growth in gross national prodnct. For the past two years real growth has been limping along at an annual rate of between 2 and 2.5 per cent, even though demand has been growing at roughly twice this pace. Within this overall figure there have been quite sharp quarter-to-qnarter variations, both in the rate of expansion and in the sectors which have been providing the forward impetus.

Indeed, earlinr this year, the combination of sharply declining interest rates—last month Federal Reserve lowered its discount rate to 5½ per cent, its fourth reduction in 1986—and falling oil prices was almost nniversally expected to trigger an acceleration in economic activity in the second half of the year, when combined with the improvement in thn trade bad been expecting as the result of the 30 per cent decline in the dollar from its peak in February 1985.

Instead, in the second quarter, the pace of real growth slipped from the first quarter's 3.8 per cent to an annual rate of only 0.6 per cent—in effect, economic stagnation. What happened? And what is the significance of the sharp slowdown for the future?

This year's developments have brought sharply into focue the economic problems the US is grappling with. The sluggish first half of 1986 can be attributed, in part, to some temporary negative factors: in particular, belt-tightening in the oil industry in the face of the plunge in oil prices.

Consumer spending and housing expenditures did indeed strengthen, as economists had predicted they would, in response to lower interest rates and increased disposabla income stemming from thn oil price decline. But once again, the force which has been dragging the economy down throughout the past two years—namely, the increasing tendency of Americans to buy more of thnir needs from abroad, at a time when foreigners are not falling over themselves to purchase American goods—shattered thn hopes of the optimists inside and outside the Government. By mid-year, the US tradn deficit was running at an annual rate of \$170bn, np from the \$150bn hit in 1985.

In August thn Commerce Department reported that the deficit bad surged again in July, to a record \$18bn. Thn economic significance of these trends is that the rising trade deficit is short-circuiting the sustained economic upturn which it was hoped lower interest rates and lower oil prices wnuld trigger.

An indnstrial sector which is, to all intents and purposes, in recession is seeing no relinf on the horizon from the import-penetration thet is sapping its resilience and, with capacity ntilisation rates now under 80 per cent so late in the economic cycle, there is no reason to expect capital spending, which is trending downwards, to become anything other than another drag on economic activity.

These constraints on the US economy, weakness in the industrial sector, the recession in the farm economy (stemming, in part, from worldwide structural changes in agriculture), in regional fragility in real estate and natural resource industries (reflecting the process of disinflalion) led a conference of US state governors to declare in August that, on their calculations, somn 30 mainly middle-American states are already in recession.

On both the Atlantic and Pacific coasts, states with vibrant service sectors are preventing stagnetinn from turning into recession. With fnars monnting that the economy may elip into recession, thn Fednral Reserve Board is now perceived to be focnsing on trying to prevent such a development. Whether it will succeed, however, is a qnestion that dividns private-sector nconomists.

Thn consensus view is that it will. Tha combination of the decline in the dollar'e value (which bas already taken place), the further decline in the dollar (whicb most analysts expect) and thn monatary stimulus that thn Fed will supply to bead off recession, will, most economists argue, mean that growth, albeit sluggieb growth, will continne.

Blue Chip Economic Indicators, which surveys private-sector economic forecasts, says thn consnnsus is now for growth of 2.6 per cent this year and 3 per cent in 1987. The judgment that recession can be evoided hinges, in part, on the assessment that the fnrces whicb normally trigger a downturn, rising inflation and capacity ntilisation and a tightening monetary policy, are absent. In addition, it is assumed thet ultimately thn falling dollar and the rise in import prices associated with it will halt thn deterioration in the tradn deficit.

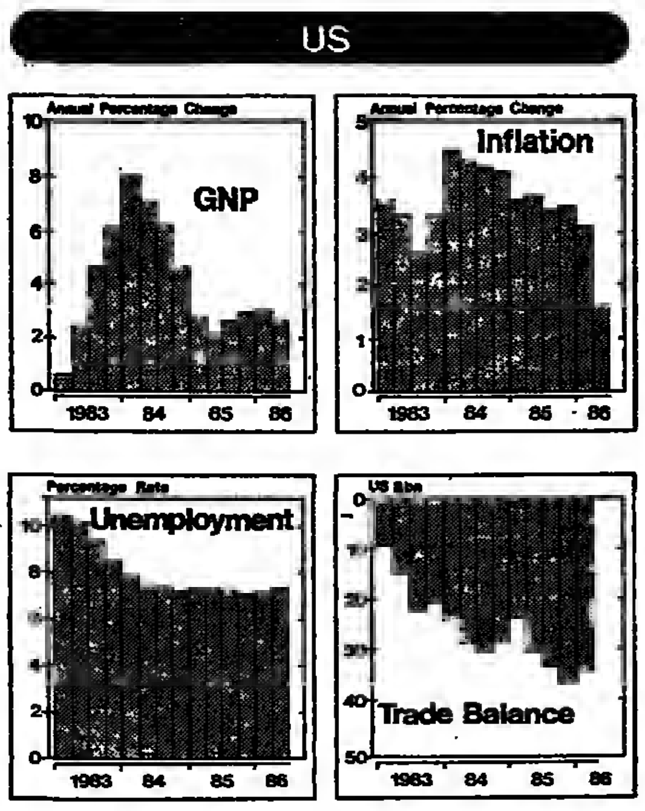
Bnt since the US is trying to claw its way out of a trade deficit, at a time when its trading partnars too are expanding, sluggishly if at all, and eince the dollar bas not declined against thn currencies of many key trading partnars—notahly Canada and many nawly-industrialised nations in Asia—it is argued that the trade deficit, if it does decline, will not declinn by mnch. The growth next year will be at best slnggish, and the "risks" of recession high.

This picture promises somn political fireworks. Thn White House (and tha Fed) are already berating thair industrial-conntry trade partners for not doing mnre to help the world's economic expansion.

On Capitol Hill, the Democratic party, foes of the White House and its political allies tha Repnhlican party, are charging that tha country is now eufferinq the conseqnences of President Reagan's ill-judged "voodoo" economist policies, and their bopes of retaining control of the Senate are rising.

Bnt most worrying of all, many Republicans and Democrats are gathering around the idea that what they see as the United States needs tongher trade laws to protect itself from unfair foreign compelition. Protectionism is heading for tha top of tha political agenda.

Stewart Fleming



Heading for a deficit next year

THE UK economy is not, even by international standards, looking particularly rohust. Economic growth has slowed sharply in the past 12 months, leading to speculation that tha economy has passed a cyclical peak and entered a "down-swing."

Growth worries have been compounded by uncertainty about the outcome of the general election, due in either 1987 or 1988, and by the dramatic declioe in nil prices, which is putting the balance of payments nnder strain. In addition, ettention has focused on unit labour costs which continua to rise much faster than in other industrial countries. Sluggish growth and higher pay have together resulted in longer dole qnaues.

Anxiety abont polilics, oil prices and Britisb wage inflation more than account for the sizeabln "risk premium" which international investors are now dnmanding on sterling assets. As n result of this premium, real interest rates in tha UK, at about 7 per cent, are tha highest in any major ecooomy.

The high interest rates, however, have not prevented e sharp depreciation of the pound against the Deutsch Mark and yen, and n massive over-shooting of the Treasury's money supply targets. The hroad measure of thn money supply, sterling M3, has risen by 18½ per cent over the past year, easily exceeding the Government's generous target range of 11-15 per cent. The liquidity expansion has fuelled faars in somn qnarters that inflation, which is below 3 per cent, may soon begin to creep higher.

Tha slow-down in growth in the UK is well tabulated in the August issue of the National Institute Economic Review. This shows that, between thn last quarter of 1982 and the first qnarter of 1985, gross domestic product, investment and exports grew at annual rates of 3.9 per cent, 4.9 per cent and 7.4 per ceot. Between thn first quarter of 1985 and the first quarter of 1986, tha growth rates were only 1.3 per cent, 0.7 per cent and 0.2 per cent, respectively.

Mr Gavyn Davies, the chief UK economist at Goldman Sachs, argues that the growth slow-down, or down-swing in demand, was dne partly to an unintended tightening of fiscal policy last year. He points ont that the public sector's financial deficit in 1985-86 was ouly £7.7bn, compared with a target of £9.8bn; tha smallar-than-intended shortfall reflected nnexpectedly buoyant tax receipts. The message is clear: as things turned out, the Chancellor's 1985 Budgat was too enstere.

The National Institute takes a gloomy view of future prospects. It expects growth to remain sluggish in 1987, Inflation and puhlic borrowing to rise sharply, and the current acconnt to register an alarming £6hn deficit.

Most forecasters agree that, in 1987, the UK will run its first current accoont deficit for seven years. This is due mainly to the collapse of oil prices, but it also reflects the lacklustre performancn of mucb of UK heevy industry, where output is falling and exports growing et only about half the rate of expansion of world trade. But most forecasters, other than the institute, project qnite small deficits.

Mr Malcoim Roberts, the chinf UK economist at Salomon Brothers, is more optimistic than most and expects the current account to show a small surplus in 1987. Manufacturing, ha says, will do better than expected, and invisible tradn (which is now more important than visihles) will remain strong. He warns, however, that n "fall in tha exchange rate should be huilt into people'e expectations." If a further fall does not materialise, mnre bearish forecasts for thn current account and other variahles could prove correct.

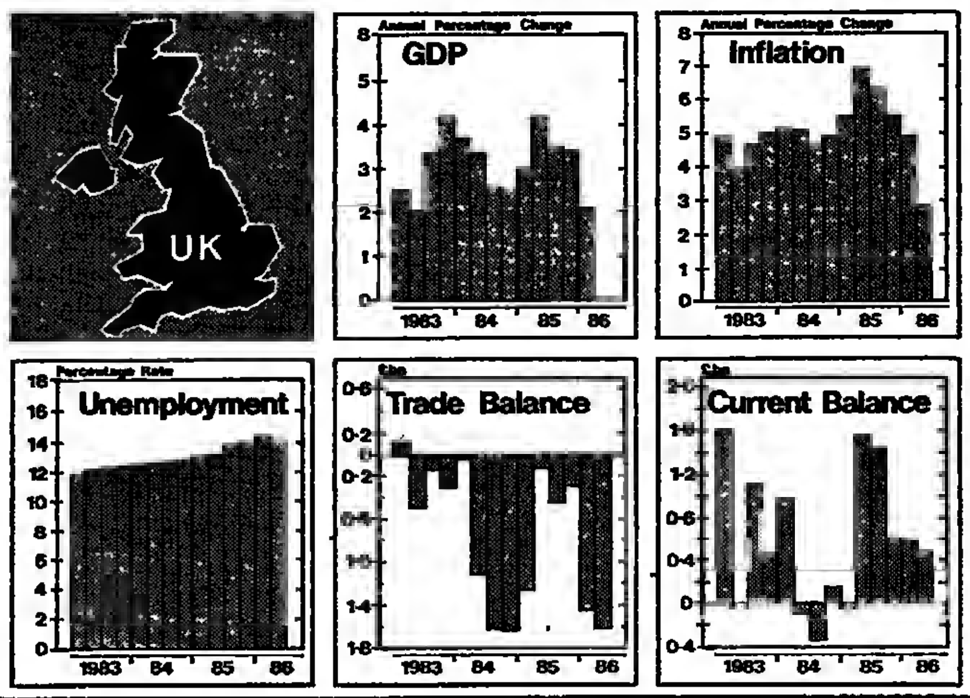
Thn majority of forecasters remain convinced that 1987 will be a better year for thn UK economy than 1986. This partly reflects a hope that lower oil prices will eventually stimulate world trade. Many are also confident that thn Government will quietly loosen puhlic expenditure and borrowing controls in the run-up to the election. Thn economy ehould also bennfit from the pound'e depreciation, evnn if thn rate of declinn slows eharply in future.

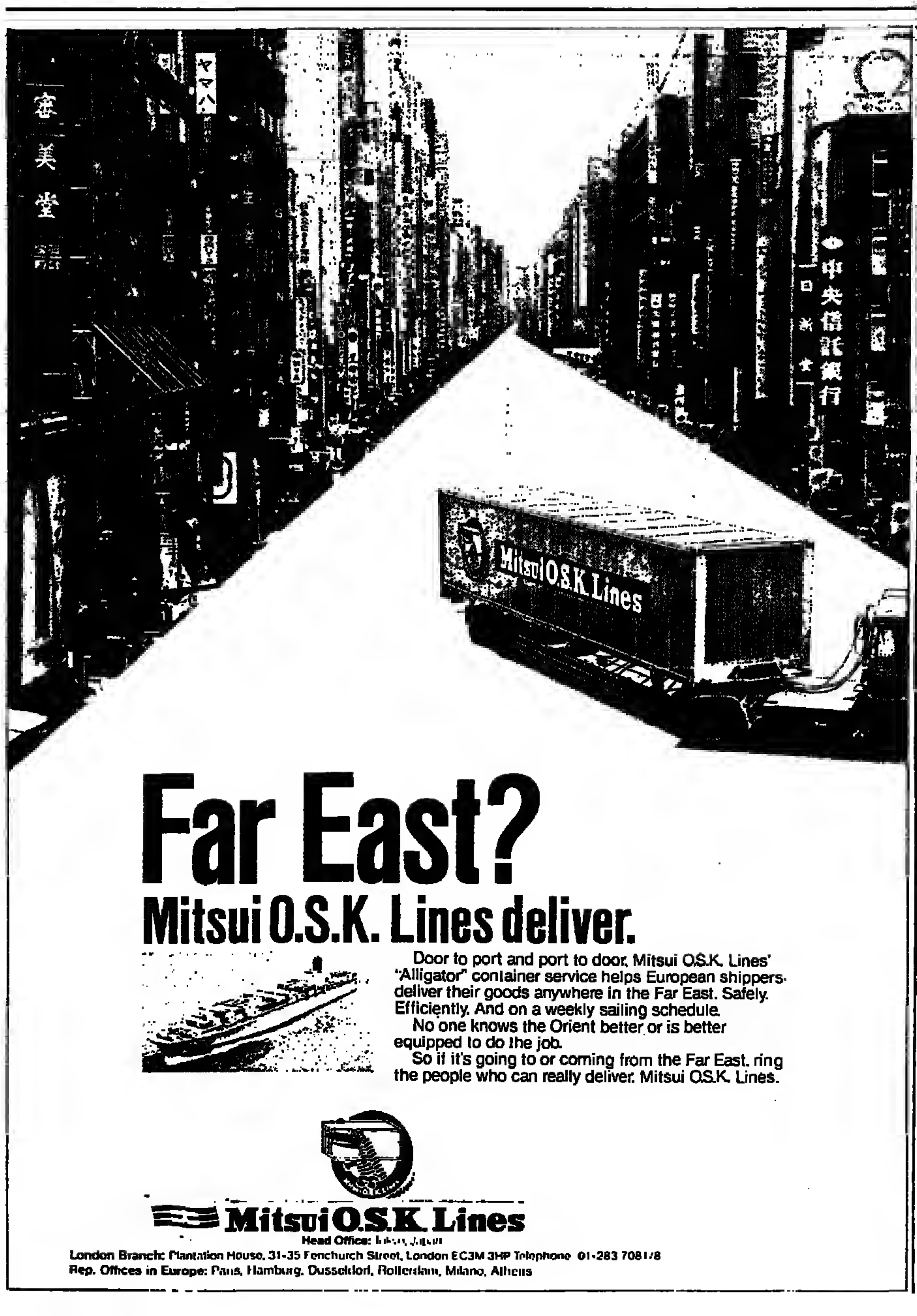
Gavyn Davies: expects a powerful recovery of investment next year

Mr Davins, at Goldman Sachs, argues that thn current down-swing phase will be brief. He anticipates a pownrful recovery of investmnnt next year: almost 7 per cent growth, compared with about 2 per ceot in 1986. This compares with the National Institute'e forecast of an increase in investment in 1987 of only 1 per cent. Mr David Kern, an economist at National Westminster Bank, is also bullish about the UK economy: hn predicts GDP growth of 3.3 per cent next year, based on a recovery of exports and investment, and a rebuilding nf inventories by companies.

It does seem more than likely that the growth which failed to materialise this year will be buncbed into the first half of 1987. But this could give n misleading impression of the economy'e strength. The medium-term nntlook for pay, industrial prodnction and the balance of payments is mixed at best.

Michael Prowse





Signs of lost opportunity

By David Currie

David Currie is Professor of Economics at Queen Mary College, University of London, and is co-director of the International Macroeconomics Research Programme at the Centre for Economic Policy Research. He also advises Roy Hattersley, the Shadow Chancellor of the Exchequer.

THE INTERNATIONAL economy has witnessed in the past year two dramatic changes: the fall in the dollar, reversing the increasing over-appreciation of the previous three years or so; and the fall in the price of oil.

The first, long overdue, was helped by the faltering step towards intenational economic co-operation among the G5 (or, more accurately, the G3 countries) initiated at the Plaza Hotel last September. The second resulted from the pressures that built up in the Opec cartel in a period when many members have been experiencing debt service problems and the Saudis were unwilling to go on bearing the cost of sustaining the cartel.

Both these changes, in the real dollar exchange rate and in the relative price of oil, help to remove important imbalances in the international economy that, had they remained, would have impeded growth in OECD countries. Nonetheless, other problems persist, and suggest that the next year or so will be one of continuing uncertainty in the international economy.

From the European perspective, the most pressing problem facing policy-makers must be the level of European unemployment, persistently stuck at unacceptably high levels. Throughout the 1980s, governments have been reluctant to take action to reduce unemployment, because of fears of inflation. Yet the fall in the dollar and in oil prices present most favourable circumstances for such action.

Inflation prospects in European countries are generally favourable. (Here retail prices, falling in some countries, offer too optimistic a view, influenced as they are by the once-for-all effects of the oil price and dollar falls. But GDP deflaters are probably too pessimistic, because of the tendency of wage settlements to lag behind prices. The true picture is somewhere between the two.) But the signs are that European governments are going to miss this opportunity. Most projections suggest that, although the European economy will grow at a reasonable pace, output growth will not significantly exceed productivity growth on current policies, so that unemployment will remain stuck at its present plateau.

But even this prospect is not free from dangers, for it remains to be seen how US macro-economic policy will evolve. The fall in the dollar was helped by the expectation of action to cut the enormous US federal fiscal deficit, which is structural in character and is projected to persist to the end of the decade and beyond. Yet the task of cutting these deficits is not obviously being tackled, and may be made more difficult by current tax reform. Political considerations alone suggest that the problem will be bequeathed to the new president. But if the prospective deficits are not reduced, we can expect continuing instability in the dollar and interest rates, creating problems for Europe and the less developed countries. In these circumstances, with the external US deficit continuing in massive deficit, the pressures for protection in the US may prove irresistible.

But even if it materialises, US fiscal contraction is not, in itself, good news for Europe or, indeed, for the international economy as a whole. It will result in slower output growth in Europe, for the contractionary demand effects will almost certainly outweigh any expansionary benefit obtained from lower real interest rates.

The prospects for European unemployment in these circumstances will be bleak. More broadly, by lowering OECD growth, it will damage the export markets of less developed countries, already affected by weak OECD demand and creeping protection. Although large debtors may gain more from lower real interest rates (if they materialise) than they lose in export earnings, the overall position for developing countries will be a deterioration in their external payments position. Thus the third world debt problem will be exacerbated.

To avoid these problems, European countries and Japan need to make accompanying policy adjustments. This point is typically overlooked by those Europeans who point to the US fiscal deficit as the source of all our problems. This is very far from the truth. Indeed, it is probably better that we learn to live with US deficits than that they are eliminated without any European policy response, though neither outcome will be very comfortable. What is required is for Europe to respond to US fiscal contraction by a degree of fiscal expansion.

Fiscal conservatives who regard the only admissable fiscal action to be reductions in the deficit, may greet this suggestion with horror. But if a European expansion is not forthcoming, the result will be a fall in demand and output and rising unemployment. It is hard to see any case for this at a time of low inflation and high unemployment; on the contrary, there is much to be said for a more expansionary overall stance of policy, with the expansion taking the form of supply-side friendly measures so as not to trigger a rise in the inflation rate.

But it would not be appropriate for Europe to match US fiscal contraction, as it materialises, with an equal, or greater, degree of fiscal expansion. This is because high real interest rates and steadily rising debt-income ratios in OECD countries are clear indications that the overall balance between monetary and fiscal policy is wrong. This will require the G5 central banks to ease down interest rates relative to the going rate of inflation, implying a temporarily more rapid rate of growth of monetary aggregates (though financial innovation is making money supply figures, for all the attention that they continue to receive, increasingly unreliable as a guide to the conduct of policy.)

This will create a more favourable climate for investment, reduce the burden of debt interest in government budgets, allowing an expansion of government exhaustive expenditure or cuts in taxes within given budget plans, and greatly ease the debt service burdens placed on the third world. As yet, although nominal interest rates have been declining over the past year, there is little indication that this decline has been sufficient to result in lower real interest rates.

In summary, therefore, what is called for is a cut in the fiscal deficit in the US and expansion in the rest of OECD, accompanied by a concerted fall in real interest rates. This will clearly require a fair degree of co-operation between the key G5 countries if it is to come about.

The prospects for this are a little more propitious than they were a year ago: the Plaza agreement signalled the abandonment, notably by the Americans, that markets can be left to manage and that policy co-ordination is superfluous. But that change in attitudes came only at the end of a very long-drawn-out and damaging episode of dollar over-appreciation and mismanagement of fiscal and monetary policy, when the position of the dollar was so clearly unsustainable that all the key countries agree that adjustments were required.

What is required, however, is not crisis management of this kind, but rather a means of ordering our international affairs so as to avoid extreme disequilibria of this kind in the first place. But the current reluctance of Germany and Japan to cut interest rates, despite pressure from the US, suggests that there is too narrow a range of agreement among the key countries for anything other than crisis management to be on the agenda. Moreover, an effectively functioning international system may well require the US to find different ways of ordering its fiscal affairs, raising formidable political, and even constitutional, obstacles.

For these reasons, I am not optimistic about the prospects for effective policy co-ordination among the G5 countries. But it would be unwise for us to abandon attempts to bring this about. For in its absence, individual governments will seek, rightly in my view, to tackle their economic problems, particularly unemployment, by go-it-alone policies.

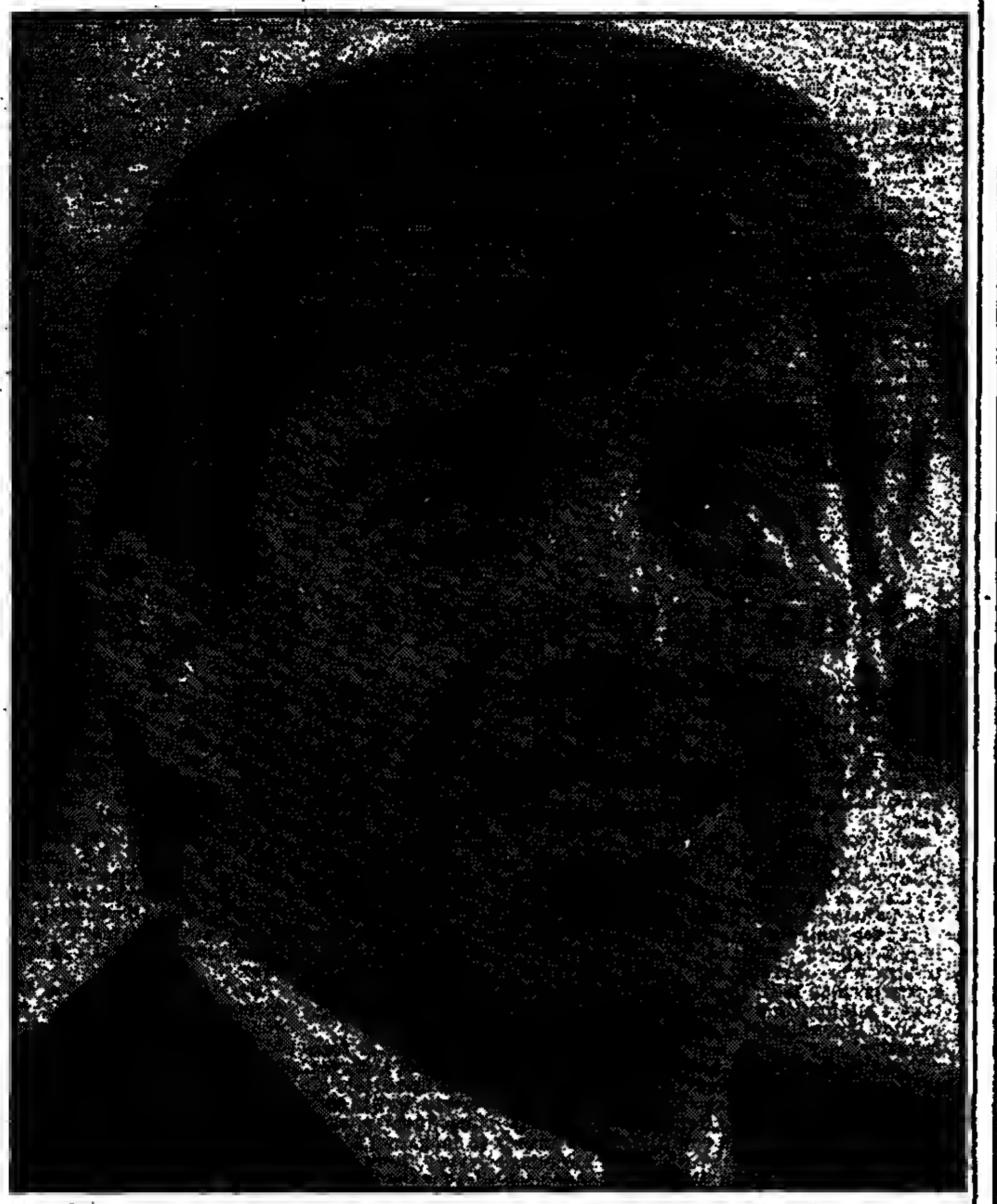
But so tight are the constraints placed by international markets on individual policy actions that this course may well go together with restrictions on international trade or capital movements.

There is a very distinguished line of economic thought, including Keynes and eminent international economists such as James Tobin and Rudiger Dornbusch, which sees some restriction on the free movement of capital as a necessary condition for the maintenance of a free well-functioning international trading system. I suspect that events may support this view, unless the major economies can better co-ordinate their macro-economic policies.

Why it's not like the 1920s

By Congressman Jack Kemp

Representative Jack Kemp was one of the architects of the Reagan Administration's supply side economic policies at the beginning of the decade. Today Mr Kemp, a former professional American footballer, has emerged as one of the stronger potential contenders to succeed Mr Reagan, and the man who is the standard-bearer for the right wing of the Republican Party.



TO PARAPHRASE Mark Twain, reports of the death of the world economy have been greatly exagerrated. Agricultural over-production, commodity price deflation, protectionism and debt are serious problems. But comparisons with the 1920s are unwarranted. In fact, a number of trends indicate that the international economy is poised for economic growth.

First, there has been an international move toward tax reform to increase incentives and improve the world-wide allocation of resources. The US is in the final stages of reforming its tax code to cut the top tax rate on wages and savings to 28 per cent (down from 70 per cent five years ago), while sharply reducing tax subsidies for borrowing and inefficient investment. This combination should also reduce the US trade deficit, which equals the excess of national investment over savings. (Because the tax-rate cuts are phased in to avoid any revenue loss, the full positive effect will not occur until 1988, though.)

The US example is also spurring tax reform in Canada, Japan, Germany, France, the UK, and in less developed countries like the Philippines. Faster domestic growth in trade-surplus countries would further reduce trade *imbalances* by absorbing more domestic and foreign production.

However, the idea should not be to stimulate domestic demand by increasing the government *deficit*, as official American advice so often seems to imply. "Revenue neutral" tax reform need not interfere with budget deficit reduction or put pressure on monetary authorities. (In the US the budget deficit is being sharply redoced.) Lower marginal tax rates can lead to non-inflationary growth, encourage investment and reduce unemployment. The notion that double-digit unemployment in Europe cannot be reduced, because Europeans (unlike Americans) do not respond to incentives, strikes me as implausible.

Second, last September's Group of Five agreement on exchange rates ended America's "benign neglect" of the international monetary system. Much of the trend toward protectionism can be traced to large exchange rate swings which disrupt trade, investment and employment. It goes without saying that further protectionism must be resisted, and GATT must be extended to cover agriculture and service. But without relieving the pressures at their source, this will prove at best a rearguard action.

The Plaza Accord was only a first step toward true monetary reform. Not everyone in Washington recognises that, just as it rose too far, the dollar can fall too far. "Talking down the dollar" is not the answer to trade imbalances. I believe there is room for further interest-rate reduction, but not in pursuit of a begger-thy-neighbour trade advantage. We must stabilise exchange rates at reasonable levels, because wild exchange rate swings only create new imbalanses which encourage protectionism.

It is pointless, though, to debate "fixed versus flexible exchange rates" without specifying the standard against which currencies should be fixed or floating. The effect of the dollar's role as the rest of the world's official reserve asset is often overlooked. Europeans have long complained that their holding of dollar reserves permits the US to buy up foreign factories or finance domestic budget deficits.

But what Charles de Gaulle called the "exorbitant privilege" is also an exorbitant burden. Demand for the dollar puts upward pressure on the real exchange rate that makes US farmers and manufacturers less competitive internationally, adding to the pressure for protectionism. Moreover, it's a peculiar system that makes one nation's balance of payments deficits the primary source of international reserves for other countries—especially when that nation has become, in the process, the largest debtor in the world.

Better national policies are always welcome, and talk of international reform should not be an excuse for failing to make domestic reforms. But policy co-ordination alone is insufficient. We need a framework for stability, which only monetary reform can provide. It need not be done *hastily*, but it must be done.

Third, the conduct of US domestic monetary policy is just beginning to centre more on prices rather than monetary aggregates. The latter are especially inappropriate in a country whose currency is widely used abroad. The institution of a price rule can avoid the problems created by the inflation-causing interest-rate targets of the 1970s and the wrenching deflation caused by money-supply targets of the early 1980s.

Fourth, both developed and developing countries are becoming more market-oriented. For example, the fall in the oil price which improves prospects for growth, is neither an act of God nor a stroke of good luck. Earlier oil price rises resulted in large part from both the explosion of monetary reserves of the 1970s and controls on energy prices, especially in the United States, that artificially restricted production and encouraged consumption. Ending inflation, deregulating energy prices, and the increasing privatisation of energy companies, has reversed most of the increase.

The socialist model is dead—it's being rejected even in mainland China. Developing nations are now looking to the market economies of the West for guidance. And the industrial countries have started to re-examine the poisonous theories of state control, devaloation, high taxation and high spending, which were routinely dispensed through organisations like the International Monetary Fund and the World Bank—advice which contradicts the actual experience of the industrial nations.

The prospects for a resolution of the debt crisis are improving. Both the dollar's decline from last year's exaggerated heights and the drop in interest rates are easing pressure on debtor nations. (Oil-exporting nations like Mexico are partial exceptions, of course, but they too *benefit in turn from lower cost* of inputs and imported goods.)

My colleague Senator Bill Bradley has correctly pointed to the dangers of piling debt upon unpayable debt, while Treasury Secretary *James Baker's* initiative places emphasis on pro-growth policies and new bank lending. Both have only part of the picture. Unfortunately, Senator Bradley downplays the importance of the right policies by the developing countries themselves—tax reform, privatisation, spending reduction, trade liberalisation, and encouragement of private investment—which are key to the Baker plan.

Whether debt should increase or be written off cannot be answered in the abstract; it depends on existing assets, the prospects for growth in a specific country and the profitability of specific projects. And the best method of financing long-term investment is equity, not debt. With private direct investment, the risks and rewards of development are shared. Dividends are low when business is bad, but high when profits are made. This limits exaggerated swings in the relative burden of financing development.

As the next step in dealing with the debt crisis, the World Bank and IMF must key their loans to these sorts of specific reforms. This will serve as a necessary discipline on the policy advice of these institutions, and will enable recipient countries to become equal partners in planning their own economic development.

Specifically, loans could be used to underwrite transition costs in liberalising trade, payment of market prices to farmers, and marginal tax rate reductions. *Loans to cover* severance pay and retraining for discharged employees of inefficient parastatals would lessen any policy pain of privatisation in developing countries. The beginnings of such an approach are to be seen in the recent adjustment programmes for Mexico and the Philippines.

The problems of the world economy are not insignificant. But they are not insoluble, either. With more of the right policy changes, I believe that the rest of the 1980s and 1990s can be years of world-wide stability, non-inflationary prosperity, and democratic free enterprise.

Commodities

Life without artificial support

JUST 10 years ago—although it seems like an eternity—commodity markets were a principal focus of political and economic concern.

Prices had exploded after a long past-war period of relative stability; there were fears of shortage and worries about manipulation of markets by Opec-like cartels; there was talk of the New International Economic Order and of a fairer deal for producers.

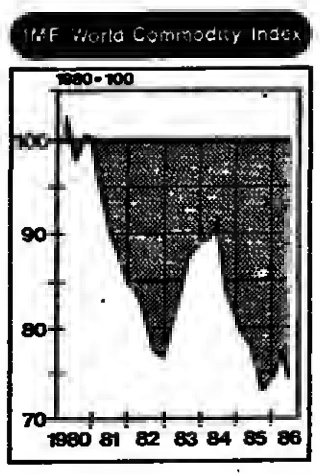
Tha situation now could hardly be more different. Non-oil commodities have faded from the public gaze; prices have fallen and volatility has all but disappeared; any thoughts of prodocer power in commodites other than oil are decidedly on the wane. Yet for all that, what has been bappening in the commodity markets over the past couple of years is no less important to the world economy.

In effect, a massive transfer of resources is underway from commodity-producers to consumers, reversing the trend of the 1970s. The downturn in commodity prices since 1980 bas been a major factor in the developing world's debt crisis, and an important weapon in the industrialised world's apparently successful fight against inflation.

Last year, eccording to tha United Nations Conference on Trade and Development, non-fuel primary commodity prices in current dollar terms fell by 10.7 per cent, axtending a trend seen throughout the 1980s. By the end of 1985, prices expressed in Special Drawing Rights (the IMF currency basket) were 16 per cent below average 1980 levels—and they have been falling further since.

Significantly, the drop has been much faster in commodity prices than in those for manufactured goods. In dollar terms, the price of manufactured exports has declined by an average of 3.6 per cent a year since 1980. The decline in commodities bas been twice as large, and the UN reckons that, relative to manufactured goods, non-fuel commodity prices last year reached their lowest level since the second world war. Foodstuffs bave been particnlarly bard hit, but metals and agricultural raw materials for industry bave certainly not escaped.

IMF World Commodity Index



In a sense, the full impact of the change bas only been apperent over the last year or so. This is hecsuse of distortions introduced by the wild swings in the value of the US dollar. Until last year, conventional wisdom explained tha fall in dollar commodity prices—at least in part—by the continuing strength of the dollar, whicb meant that purchasers and exporters of commodites were still experiencing relstively strong prices in terms of their national currencies.

When the dollar fell, so the argument went, commodity prices would rebound to some extent to compensate. That recovery has simply not bappened. The dollar has declined dramatically since early 1985, yet prices remain in the doldrums.

Clearly, then, the forces et work in the commodity world are mncb more fundamental.

At the most hasic level, commodity prices are being kept down by the relatively weak state of world economic growth, and therefore of demand for raw materials. This effect bas been exacerbated by the fact that manufacturing industry—the main user of commodities—has been expanding progressively more slowly than overall economic activity. In the 1980s, the indostrial sector bas shown an overage annual growth rate of 1.3 per cent, compared with 3.4 per cent in the 1970s.

In addition, persistently bigh real interest rates have discouraged consumers from bolding large stocks of commodities and encourraged a shift of investment away from the commodity markets and into financial assets.

Sluggish economic growth, however, would not have been having sucb a serious effect in the commodity markets now, had it not heen for tbe fact that it follows the dislocating boom-and-bust cycle of the 1970s.

The price explosious in the early 1970s and again in 1979 hed the twin effects of reducing commodity consumption and spurring an increase in prodnction. As with oil, consumers moved to conserve commodlties: they developed synthetic suhstitutes and new materials; they improved their processes and prodnct dasign so that less raw-material lnpnt was used per nnit of manufactured output.

Meny countries, feeling exposed to tha vicissitudes of the world market, also took steps to rednce their dependence on commodity imports, with the result that commodity trade has declined fester than commodity use. In agriculture, for example, a number of countries which were once major importers hsve achieved dramatic advances in self-sufficiency, leaving the exporters to fight increasingly fiercely over s declining world market.

By tbe same token, prodncers took the price boom as a signal to expand. As the UN observed wryly in a recent report: "By the tima most of the sdded capacity came on stream, the buhhle had hurst." But producers—many of them debt-laden countries with a pressing need for foreign exchange—have not responded by cutting hack. In many cases, they feel impelled to expand export volumes to offset declining unit prices, thus aggravating the problem.

Exchange rate movements did nothing hut confuse the plcture. Tbe strong dollar of the early 1980s—particularly strong against the devaluing currencies of commodity producers in the developing world—continued to encourage production. And consumers—especlally in Europe—continued to feel the pinch, and to rednce their purchases where possihle, long after dollar commodity prices had started to slide.

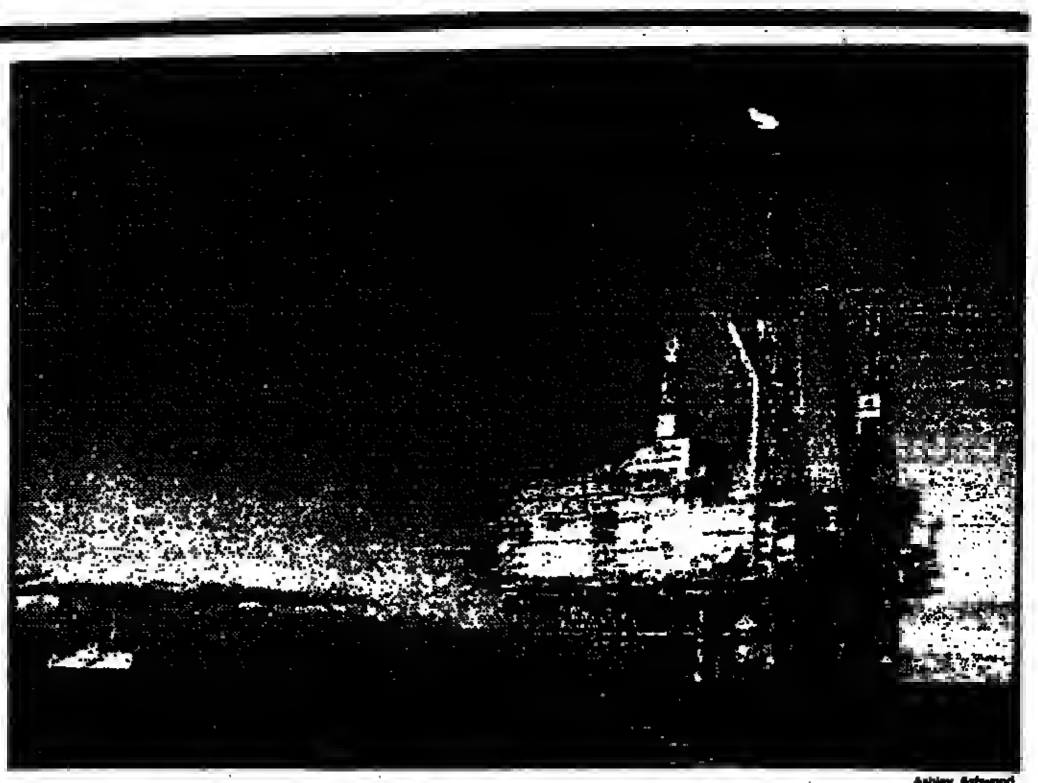
At least on that count, the scales have fallen from everybody's eyes. Prodncers of most commodities are also having to get used to life without other artificial support mechanisms—since the demise of the International Tin Agreement last October. The bope is expressed in some quarters that the current historically low lovel of commodity prices will feed through into increased demand, if and when the world economy shows a marked response to the collapse in oil prices.

Bnt in many instances, substitution of other materials for primary commodities is a one-way process; and in tha developed world at least, economic growth seems likely to retain its hias in favnur of the services sector. What is more, there remains a hnge overhang of excess prodnction capscity in jnst abont every commodity market. Producers have a tendency to react to every modest price upswing by stepping up output, bringing mothballed mines back on-stream, planting idled fields—and, of course, depressing prices again.

Thus, although the worst may be now over for the commodity markets, the prospects for any substantial improvement remain bleak. As the UN observes in its World Economic Survey:

"The fundamental conditions for s significant and sustained recovary in real primary commodity prices are simply not there. In the short run, barring unforeseen disasters, most commodity markets will remain in a situation of excess supply with ample stocks."

Andrew Gowers



Virtually every major forecast for the world economy this year has been based on the assumption of an oil price higher than that which prevailed when the forecast was published.

Forecasts

Oil is the hangman in the tarot pack

ECONOMIC FORECASTERS have often been vulnerable to the criticism that they cannot predict turning points. Over tha past year their task has been more than usually beset with difficulties, as a string of 180-degree rotations in the underlying assumptions has turned the results of tha economic modellers on their heads.

The Paris-hased Orgsnisation for Economic Co-operation and Development, in its half-yearly assessment of the world economic ontiook in May this year, hung a word of caution on its projections, which then showed a modest upward revision of growth prospects in the light of the decline of oil prices.

"A warning that is in order is that the present OECD economic aituation, marked by major changes emanating in large part from outsida the area, is one where larger-than-averaga forecasting errors are liahle to be made. Moreover, the technical assumptions about oil prices and exchange rates could be belied by events," the OECD waroed.

Further problems were posed by the difficulty of guessing wbat, if anything, the US would manage to do about its federal hndget deficit, whicb remained firmly intertwined with the distorting imbalances in external trade and in exchange rates.

A more serious flaw, however, was the misreading by s wide range of economic forecasters of the effects of lower oil prices on world trade and growth prospects.

Analysts noted that the drop in oil prices would impose balance-of-paymeots cnnstraints on oil-producing conntries, which would require them to reduce their imports from the industrialised nations, continning a process that has been in train since 1981. In addition, they anticipated a cntback in capital spending in the oil industry.

For the most part, bowever, they were taken by surprise by the speed with which these negative influances on demand came to tha surface, in contrast to the slowness with whicb demand responded in the oil-consuming countries to the boost to shift of incomes.

The OECD calculated tha net transfer of income to its member countries, resulting from the fall in oil prices to $15 a harrel, at $63bn a year. As a result, it revised its forecasts to show faster growth, slower inflation and better employment prospects.

It is the oil price that has been the hangman in the Tarot pack. Both the speed and the extent of its decline took forecasters by surprise, with the result that virtually every major forecast for the world economy so far this year has been based on the assumption of an oil price around $5 a barrel higher than that actually prevailing when the forecast was published.

An oil price of $15 a barrel was assumed both by the International Monetary Fund in its April forecast and by the OECD in May. To many, it seemed unimaginable that oil could get much cheaper than $15.

By the time the OECD forecasts were published, however, the price of North Sea crude oil had already fallen to $13.55 a barrel. It subsequently sank still further to less than $10.

Exchange rates have also posed problems for the forecasters. After obstinately refusing to fall when the balance of payments argued that it should, the US dollar started its slide in the spring of 1985 and gathered pace after the meeting of the Group of Five finance ministers at New York's Plaza Hotel a year ago.

Taking aim at this moving target, or predicting when the slide would bottom out, has been an unrewarding pastime. Estimating the lags before such a major realignment of exchange rates takes its effect on the real economy has been even more thankless.

In December 1985, the organisation had expected growth to dwindle to an annual rate of around 2.3 per cent before picking up again in 1987. Inflation was expected to level off at around 4.5 per cent a year with unemployment growth remaining steady at 1 per cent a year.

By May, however, the OECD forecast showed a much shallower dip in output growth in the first half of 1986, picking up to growth of around 3¼ per cent in the second half of 1986 and the whole of 1987. Inflation was projected to fall to 2½ per cent, and employment growth to pick up to 1.4 per cent.

While inflation has fallen rapidly, as projected, hopes for economic growth and employment have been disappointed, as the slowdown in world trade spilled over into weaker activity in all the major industrial economies.

The secretariat of the General Agreement on Tariffs and Trade, which at the start of the year was predicting growth of 4 to 5 per cent in world trade, now reports that trade continued to increase at the 3 per cent annual rate recorded in 1985. It warns of the possibility of a prolonged stagnation in world trade.

Many forecasters who have revised their projections since the "pause" in economic growth became apparent have revised down their predictions of growth this year, and raised their 1987 forecasts. They expect the demand growth that failed to materialise in the first half of this year to come through eventually.

As the pause drags out, however, confidence that growth has simply been postponed is waning. The International Monetary Fund has revised down not only its 1986 forecast for world growth, from 3 per cent to 2.8 per cent, but also its 1987 forecast. This is now projected at 3 per cent instead of the 3.2 per cent forecast in April.

But with the uncertainties that still surround both the oil price and the US's external imbalances, warnings of the vulnerability of these and forecasts are still in order.

George Graham